

***United States Court of Appeals
for the Second Circuit***



EXHIBITS

77-1140

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PofS*

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

UNITED STATES OF AMERICA,

Appellee,

v.

DAVID STIRLING, JR., WILLIAM G.
STIRLING, HAROLD M. YANOWITCH,
EDWIN SCHULZ and RUBEL L. PHILLIPS,

Defendants-Appellants.

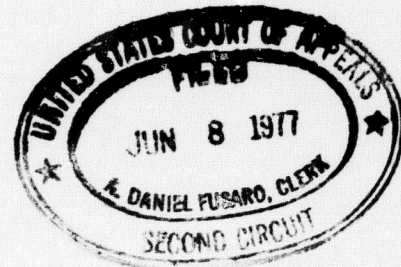


EXHIBIT VOLUME OF DEFENDANTS-APPELLANTS
DAVID STIRLING, JR., WILLIAM G. STIRLING AND HAROLD M. YANOWITCH

Volume I - Pages E 1 to E 274

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Registration No. 2-

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

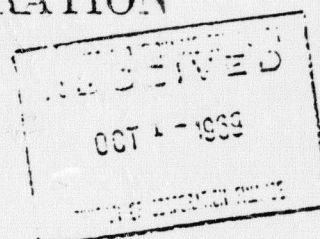
FORM S-1

42477

REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

STIRLING HOMEX CORPORATION

(Exact name of registrant as specified in charter)

1150 East River Road
Avon, New York 14414
(Address of principal executive offices)HAROLD M. YANOWITZ
STIRLING HOMEX CORPORATION1150 East River Road
Avon, New York 14414
(Name and address of agent for service)

Copy to:

DAVID M. PAYNE
WINTHROP, STIMSON, PUTNAM & ROBERTS
40 Wall Street
New York, New York 10005Approximate date of commencement of proposed sale to public:
As soon as practicable after the Registration Statement has become effective.

CALCULATION OF REGISTRATION FEE

Title of each class of securities being registered	Amount being registered	Proposed maximum offering price per share*	Proposed maximum aggregate offering price*	Amount of registration fee
Common stock, \$01 par value	825,000 shs.	\$13	\$10,725,000	\$2,145
Common stock, \$01 par value	93,400 shs.**	\$13	\$1,214,200	\$ 243
Total				\$2,388

* Estimated solely for purposes of determining the amount of the registration fee.

** Includes 68,400 shares purchased and 25,000 shares to be purchased by R. W. Pressprich & Co. Incorporated.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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STIRLING HOMEX CORPORATION

Cross reference sheet pursuant to Rule 404(c)

<u>Item Number</u>	<u>Location in Prospectus</u>
1. Distribution Spread	Cover Page; Underwriting
2. Plan of Distribution	Underwriting
3. Use of Proceeds to Registrant	Purpose of the Issue
4. Sales Otherwise Than for Cash	*
5. Capital Structure	Capitalization
6. Summary of Earnings	Summary of Earnings
7. Organization of Registrant	Organization and Certain Transactions
8. Parents of Registrant	Organization and Certain Transactions
9. Description of Business	The Company; Business
10. Description of Property	Property
11. Organization Within 5 Years	Organization and Certain Transactions
12. Pending Legal Proceedings	Legal Proceedings
13. Capital Stock Being Registered	Description of Capital Stock
14. Long-Term Debt Being Registered	*
15. Other Securities Being Registered	*
16. Directors and Executive Officers	Management
17. Remuneration of Directors and Officers	Remuneration
18. Options to Purchase Securities	Stock Option Plan
19. Principal Holders of Securities	Principal and Selling Stockholders
20. Interest of Management and Others in Certain Transactions..	Organization and Certain Transactions
21. Financial Statements	Financial Statements

* Indicates that item is omitted from Prospectus because it is not applicable or answer is in the negative.

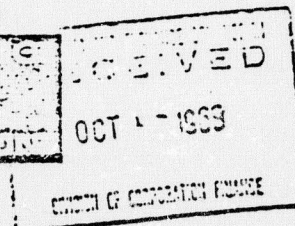
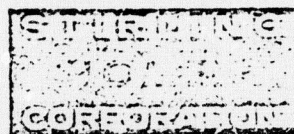
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PRELIMINARY PROSPECTUS DATED OCTOBER 1, 1969

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PROSPECTUS

825,000 Shares

Common Stock

Of the shares offered hereby, 400,000 are being issued and sold by Stirling Homex Corporation (the "Company") and 425,000 are being sold by the stockholders named under "Principal and Selling Stockholders". Prior to this offering there has been no public market for the Common Stock. The price at which the Common Stock is being offered was determined by negotiation among the Company, the Selling Stockholders and the Representative of the Underwriters.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Initial Public Offering Price	Underwriting Discount(1)	Proceeds to Company(2)	Proceeds to Selling Stockholders(2)
Per Share	\$	\$	\$	\$
Total	\$	\$	\$	\$

(1) On April 14, 1969 R. W. Pressprich & Co. Incorporated purchased, subject to certain restrictions, 68,400 shares of Common Stock of the Company for \$68,400. "See Underwriting". Any profit realized from the sale of such shares of Common Stock may be regarded as additional underwriting commissions within the meaning of the Securities Act of 1933.

In addition to the shares offered hereby, the Company has agreed to sell 25,000 shares of its Common Stock to R. W. Pressprich & Co. Incorporated, at the Initial Public Offering Price set forth above, subject to certain conditions. See "Underwriting". The Company is advised that such shares are being purchased for investment and without a view to the distribution thereof; however, R. W. Pressprich & Co. Incorporated may realize gains upon future sales or other distributions of the shares so purchased by it.

(2) Before deducting expenses estimated at \$ payable by the Company and \$ payable by the Selling Stockholders.

NEITHER THE ATTORNEY GENERAL OF THE STATE OF NEW YORK NOR THE ATTORNEY GENERAL OF THE STATE OF NEW JERSEY NOR THE BUREAU OF SECURITIES OF THE STATE OF NEW JERSEY HAS PASSED ON OR ENDORSED THE MERITS OF THIS OFFERING. ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL.

The Underwriters have agreed to make available 82,500 shares of Common Stock offered hereby for sale to certain persons designated by the Company. The number of shares available for offering to the general public will be reduced to the extent that such persons purchase shares reserved for them.

The shares are offered subject to prior sale, withdrawal, or cancellation of the offer without notice and when, as and if delivered to and accepted by the Underwriters, and subject to approval of certain legal matters by Messrs. Winthrop, Stimson, Putnam & Roberts, counsel for the Underwriters, and by Messrs. Shea Gallop Climenko & Gould, counsel for the Company and the Selling Stockholders, and to certain further conditions. The Underwriters reserve the right to reject any order in whole or in part.

R.W. Pressprich
& Co. INCORPORATED

The date of this Prospectus is

, 1969

A registration statement relating to these securities has been filed with the Securities and Exchange Commission but has not yet become effective. Information contained herein is subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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Until , 1970 (ninety days after the date of this Prospectus) all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a Prospectus. This is in addition to the obligations of dealers to deliver a Prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

No dealer, salesman or any other person has been authorized by the Company or the Underwriters to give any information or make any representations other than those contained in this Prospectus, and if given or made, such information or representations must not be relied upon. This Prospectus does not constitute an offer to sell nor the solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. Except where otherwise indicated, this Prospectus speaks as of its date. Neither the delivery hereof nor any sale made hereunder shall create an implication that the affairs of the Company have continued without change since such date.

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THE COMPANY

Stirling Homex Corporation (the "Company") is engaged in the assembly-line manufacture and sale of modular housing. The Company's housing units are manufactured with conventional materials and consist of three or four modules, each of which is a room or multi-room section of a house. The modules are equipped in the manufacturing process with all necessary plumbing and heating fixtures, electrical wiring, appliances and floor covering. When the foundation and preliminary site work are completed, the modules for a housing unit are put in place, joined together and ready for occupancy in approximately three hours.

Generally, upon receipt of a commitment from a customer, subsidiaries of the Company purchase the land, prepare the sites, lay the foundations, arrange utility connections, erect and connect the modules, and landscape the housing site, thereby providing a total service to the customer in delivering turn-key housing. To date substantially all the housing units produced by the Company have been two-story dwellings connected to form multi-family housing. From the commencement of operations in August 1968 to September 23, 1969, the Company produced 773 modular dwelling units. The Company's plants and executive offices are in Avon, New York, near Rochester.

The Company was incorporated in Delaware in July 1968 to acquire the land, buildings and manufacturing facilities in Avon which it currently uses, a patent application, processes and know-how relating to the assembly-line manufacture of housing, and the outstanding stock of three corporations in the land and housing development business. Such stock and assets were acquired from David Stirling, Jr., William G. Stirling, David Stirling, Sr. and Harper Sibley, Jr., the organizers of the Company, or from corporations controlled by them, in exchange for stock of the Company. See "Organization and Certain Transactions".

In connection with the shares offered hereby, investors should consider among others the following factors:

The Company commenced operations in August 1968 and is engaged in a new business—the mass production of modular dwelling units. Other companies, with financial resources far greater than those of the Company, are actively engaged in research on the production of homes using mass production techniques. No assurances can be given as to the future of the industry or the Company's position in it.

In the Company's fiscal year ended July 31, 1969, approximately 60% of its sales were to customers controlled by the principal stockholders of the Company. See "Organization and Certain Transactions". Substantially all of the Company's backlog represents orders from local housing authorities for federally financed housing projects in the form of letters of intent. The Company can give no assurance as to the future availability of federal financial assistance or as to the success of its future sales efforts with local housing agencies. See "Business—Federally Financed Housing".

An important factor in the Company's continued success is acceptance by organized labor of the concept of assembly-line manufactured housing. The Company has entered into an agreement with the national office of the United Brotherhood of Carpenters and Joiners of America, the largest building trades union, under which the Union has agreed to furnish competent labor anywhere in the United States to erect the Company's modular housing. The Company can give no assurance, however, that the Company and its subsidiaries will be free of labor problems in the future. See "Business—Labor Relations".

The net tangible book value as of July 31, 1969 of the shares outstanding on that date (giving effect to the four-for-one split to be voted upon by the stockholders on November 6, 1969) was \$.33 per share. As adjusted to reflect the sale of the shares offered hereby, the net tangible book value as of that date would be

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approximately \$ per share, resulting in an increase of approximately \$ per share in such book value attributable to the cash payments made by the purchasers of the shares being offered by the Company hereby, and an immediate dilution to the public investors of approximately \$ per share.

PURPOSE OF THE ISSUE

The net proceeds to be received by the Company from the sale of the shares offered hereby, estimated to be \$, will be added to the general funds of the Company. The Company intends to establish additional plant locations. It has engaged in a number of discussions concerning the establishment of plants, of a size and capacity comparable to its Avon, New York manufacturing plant, in eastern Ohio and New England, but has not entered into any commitments to do so. It is anticipated that each of such plants, together with the necessary machinery and equipment, would be leased to the Company and, therefore, establishing them would not require substantial immediate cash outlays by the Company. Whether or not such discussions are successful, the Company intends to establish plants in these or other locations and, except as noted above, may require financing in connection therewith, the availability of which cannot be assured. The Company intends to use substantially all of the net proceeds as working capital in connection with the operations of its proposed new facilities and Avon plant.

Until the proceeds of this offering are needed for the above purposes, they may be used for the temporary reduction of short term bank loans or invested in high grade debt securities. In either case, the rate of return on the capital used in this manner is likely to be less than the rate of return which the Company has realized on its invested capital during the past year. The net proceeds from this offering will be held in trust in a special bank account or accounts. Immediately, or from time to time thereafter, such funds may be released and transferred to the general funds of the Company to be used for the purposes described herein.

CAPITALIZATION

The following table sets forth the indebtedness of the Company and its subsidiaries as of July 31, 1969 and the capitalization of the Company as of the date of this Prospectus, both as adjusted to give effect to the sale of shares of Common Stock offered hereby by the Company.

<u>Title of Class</u>	<u>Outstanding</u>	<u>As Adjusted</u>
Debt:		
Mortgages payable, 5% to 6%, due to 1974 (including the current portion) (1)	\$ 907,224	\$ 907,224
Notes payable, 7½% to 9% due to 1970 (including the current portion) (1)	\$3,700,000	\$3,700,000
Sundry Indebtedness (2)	\$ 128,064	\$ 128,064
Capital Stock(3):		
Common Stock, par value \$.01 per share; authorized 15,000,000 shares	8,472,400 shs.	8,897,400 shs.(4)
Preferred Stock, par value \$1.00; authorized 500,000 shares ...	none	none

(1) See Note 8 to Consolidated Financial Statements.

(2) Consists of installment contracts and lease-purchase agreements expiring from April 5, 1970 to April 1, 1973.

(3) Gives effect to a recapitalization of the Company involving an increase in the number of authorized shares of Common Stock to 15,000,000 shares, a four-for-one split of the outstanding shares of Common Stock and the authorization of 500,000 shares of a series preferred stock, to be voted upon by the stockholders at a special meeting to be held on November 6, 1969. Unless the context indicates otherwise the statements in this Prospectus give effect to such four-for-one split.

(4) Does not include 400,000 shares reserved for issuance upon the exercise of stock options to be granted pursuant to the Stock Option Plan of the Company (See "Stock Option Plan") but does include the 25,000 shares to be purchased by R. W. Pressprich & Co. Incorporated. See "Underwriting".

(5) See "Properties" for information concerning the extent of obligations under leases on real property.

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**STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED**

SUMMARY OF EARNINGS

The following summary of earnings of the Company and the Company and its subsidiaries for the year ended July 31, 1969 has been examined by Harris, Kerr, Forster & Company, independent certified public accountants, whose opinion thereon appears elsewhere in this Prospectus. This statement should be read in conjunction with the financial statements and related notes appearing elsewhere in this Prospectus. The note references below are to the Notes to Financial Statements.

	<u>Company</u>	<u>Consolidated</u>
Sales (Note 13)	\$5,926,272	\$10,092,064
Cost of sales (including depreciation of \$63,058 and \$67,985 respectively)	3,545,128	7,007,556
Gross profit	<u>2,381,144</u>	<u>3,084,508</u>
Administrative and selling expenses	701,157	701,157
Interest expenses—net	80,107	74,762
Total expenses	<u>781,264</u>	<u>775,919</u>
Income before income taxes	<u>1,599,880</u>	<u>2,308,589</u>
Provision for income taxes:		
State	111,992	162,500
Federal:		
Current portion (Note 10)	574,110	920,800
Deferred portion (Note 9)	185,706	187,021
Total	<u>871,808</u>	<u>1,270,321</u>
Net income	<u>\$ 728,072</u>	<u>\$ 1,038,268</u>
Net income per share of Common Stock (Note A)		<u>\$.13</u>

NOTE A. Net income per share of Common Stock is based upon 8,025,432 shares, the average number of shares outstanding during the year ended July 31, 1969 after giving retroactive effect to a proposed four-for-one split. See Note 11.

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BUSINESS

The Company is engaged in the assembly-line manufacture and sale of modular housing units. Generally, upon receipt of a customer's commitment, subsidiaries of the Company purchase the land upon which the housing modules are to be erected, prepare the sites and erect and connect the modules, thereby providing a total service to the customer in delivering turn-key housing.

The Modular Dwelling Unit

The dwelling units manufactured by the Company consist of three or four modules, varying with the number of bedrooms. Modules are approximately 12 feet in width by 24 feet in length by 9 feet in height and are stacked and joined to form a two-story dwelling unit. All modules, upon leaving the assembly line, contain and have affixed or installed (depending upon location in the dwelling unit) wall coverings, floor coverings, wood trim, drapery fixtures, cabinetry, plumbing fixtures, all necessary electrical systems and fixtures, welded insulating glass windows and, if ordered, a stove, refrigerator, and air conditioning system. The stairs are in place within the module. The exterior walls are insulated, sheathed, and finished except in those areas where brick is used (which is applied at the site in the conventional manner). Many of the Company's modules are manufactured so as to be useable in each of the models of housing units the Company offers, such as two, three or four bedroom units. When the modules have been joined and utilities connected at the building site, nothing further is required to prepare the dwelling units for occupancy.

Assembly Line Manufacture of Modules

The housing modules are manufactured at the Company's Avon plant on a center assembly-line process. At the first work station the floor assembly is built. At succeeding work stations, wall systems, ceiling systems, roof systems, kitchen assemblies, electrical systems and fixtures, plumbing systems and fixtures, heating systems and fixtures, insulation, doors and trim, ceramic tile, resilient flooring or carpeting and, when ordered, air conditioning systems, stoves and refrigerators are added in sequence. As the modules progress down the assembly line, constituent parts are cut to size, shaped and assembled on either side and overhead of the assembly line and are installed in the module. The module is then wrapped and weatherproofed in heavy polyethylene film for shipment by tractor-trailer to its ultimate destination. Generally about 20 modules can be completed in a day in the Company's present facilities.

The Company has a patent application pending with respect to its assembly line method of assembling homes. The Company can give no assurance that such application will be successful. However, the Company believes that its competitive position has been dependent upon its own research activities, management skills and production capabilities, rather than upon patent protection.

Use of Conventional Materials

The Company uses conventional building materials. It utilizes gas heat, double party wall and separate ceiling/floor systems, copper water piping, adhesives and nail fastenings and vinyl interior wall coverings. Many components, such as fixtures, appliances, hardware and door and window frames, are purchased ready for installation from independent suppliers. The Company has established building specifications which it believes meets the requirements of most local building codes. Prior to commencement of a project, the specific local code is studied to insure that the product will conform. In this connection, members of the New York Board of Fire Underwriters inspect the wiring on the assembly line and render their approvals there.

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The Company has designed a steel frame, stack-on module which is suitable for high rise buildings and has commitments to build two high-rise buildings using these modules. The Company is considering substituting a steel frame module entirely or in part for its wood frame module utilized in low-rise construction, but has not made a decision upon the proposed substitution.

Quality Standards

The Company performs quality control inspections throughout the manufacturing process. The Company believes its manufacturing process, which eliminates exposure of the materials to the elements during manufacture, enables it to process and install materials in prime condition and to maintain greater quality control and uniformity in its housing than exists in the conventional housing industry.

A major life insurance company has granted mortgages in the aggregate amount of \$5,430,000 on two projects utilizing the Company's modular housing.

Federally Financed Housing

The Company believes that its assembly-line produced modular housing is particularly suited to assist in meeting the aims of the federal low rent and moderate income housing programs by permitting the erection of large numbers of approved units in much less time than is possible with conventional construction methods. The Company has directed and intends to direct a significant portion of its sales efforts toward local housing agencies qualified for various forms of financial assistance from the Department of Housing and Urban Development ("HUD"). However the Company can give no assurance of the availability in the future of such financial assistance from HUD or that its sales efforts with local housing agencies will meet with continued success.

Models currently in production have been sold to, and additional orders have been received from, several local housing authorities which are funded by HUD.

Site Work

Both the on-site development work required prior to receiving the modules and the installation of the modules are performed in a conventional manner by a subsidiary, utilizing local union construction personnel and tradesmen. Primary on-site development work consists of preparing the foundations, making the necessary utility connections, and installing sewers. Modules are trucked to the site, lifted by crane onto the foundations and joined to each other and the foundation. The electrical, heating and plumbing systems between the modules are connected, and pre-packaged trim is applied where the modules are joined. Gutters and downspouts are then installed and brick is applied to the first floor exterior when required by the customer. Finally, the appropriate areas of the site are landscaped and paved.

Time Factors

Since on-site construction requirements are reduced to a minimum, reliance upon favorable weather and other local conditions is minimized. Accordingly, the Company's modular housing system permits the complete installation of a housing unit, from excavation of the foundation to occupancy, in a relatively small fraction of the time required by conventional construction and eliminates to a large extent clean-up after completion of the project. The reduced construction time lessens the amount of

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interest costs incurred during development and shortens the interval between the commencement of a project and occupancy and the production of income. Where relocation of families is required, as may be the case in low income housing, the relocation period is appreciably shortened.

Transportation of Units

The Company owns 100 flatbed trailers for use in transporting the modules to customers. Because of the costs involved in transporting modules from a plant, the Company believes that it is not economically feasible to sell to projects more than 400 miles from a Company plant. The continued growth of the Company's market, therefore, is dependent to a significant extent upon its ability to establish additional manufacturing facilities in other locations.

Sales and Backlog

Through July 31, 1969 approximately 32% of consolidated sales were made to municipal housing authorities and a nonprofit corporation, approximately 7% of consolidated sales to private developers and approximately 61% of consolidated sales to development companies in which the principal stockholders had an interest. See "Organization and Certain Transactions". Substantially all sales of modules to private developers have been on land acquired by the Company at the time of its organization. Through September 23, 1969, the Company produced 2,937 modules comprising 773 dwellings.

Two sales of undeveloped land acquired at the time of organization of the Company accounted for approximately 18% of the Company's net income during its first fiscal year. The larger parcel was purchased by a developer who subsequently entered into an agreement with the Company to purchase modular housing for installation on such land. The Company does not anticipate that land sales will be a significant part of its business in the future.

As of September 23, 1969, the Company or its subsidiaries had orders from local housing authorities in the form of letters of intent in the amount of approximately \$30,000,000. Of these orders, approximately \$18,000,000 are scheduled for completion during the fiscal year ending July 31, 1970. The above figures are based upon the Company's published prices in effect on September 23, 1969. Some of the letters of intent contain a provision that the actual price will be based upon an appraisal of market value at the time of delivery; the remainder provide that dwelling prices shall be the published prices of the Company then in effect. The Company believes the use of letters of intent is a common practice in the governmental housing industry. Pursuant to this practice, the Company undertakes the manufacture of modules and erection of projects before formal contracts are executed but only after letters of intent have been executed. Such letters indicate the governmental agency's intention to purchase the housing project provided it meets certain specifications, pursuant to the acquisition or turn-key procedure of the appropriate governmental agency.

Dwelling units vary in price from \$19,000 for a two bedroom unit to \$21,400 for a four bedroom unit, inclusive of average site work costs and exclusive of land costs.

Labor Relations

The Company and its subsidiaries have approximately 300 employees, of whom 70 are executive, administrative or clerical with the balance engaged in production. In September 1968 the production employees were organized in an industrial unit by the United Brotherhood of Carpenters and Joiners of America, the largest of the building trades unions (representing approximately 30% of all building trades union employees). The Company thereafter entered into a three-year collective bargaining agreement with the local union providing an industrial contract covering all production employees.

Government's Exhibit 1

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In June 1969 the Company entered into an international agreement with the national office of the United Brotherhood of Carpenters and Joiners of America. Under this contract the Union has agreed to furnish competent journeymen on a non-discriminatory basis to erect Company modules anywhere within the jurisdiction of the Union. In return the Company has agreed to recognize the jurisdictional claims of the Union and not to subcontract any work within the Union's jurisdiction which is to be performed at the job site except to a contractor who is a party to an agreement with the Union or who agrees in writing to be bound by the terms of the aforementioned agreement. As a result, the modules are manufactured and dwellings are erected completely by building trades union labor. The Company has had no strikes or interferences with its production or on-site erection of its dwelling units.

Freedom from work interruptions as a result of labor problems is important to the continued success of the Company's business. Although the Company believes that the above-mentioned agreements should contribute to the continuation of its present satisfactory labor relations, it can give no assurance that the Company and its subsidiaries will be free of labor problems in the future.

The Company and the Union recently have agreed with the National Urban League to cooperate in a program to provide free training and job opportunities to unemployed unskilled labor. The Company, the Union, and the National Urban League plan to establish a training program at the Company's Avon plants to implement this program.

Legal Proceedings

The Company has been notified of a claim by Homasote Company alleging that the Company is wrongfully using the word "Homex" in its name on the grounds that the use constitutes a violation of the registered trade name "Homex" which such corporation holds on a fiber strip filler. The Company has denied the claim and, on August 11, 1969, brought an action against the corporation in the United States District Court, Western District of New York, for a declaratory judgment that it may continue to use the word "Homex". Thereafter, on August 13, 1969, Homasote brought an action to enjoin the use by the Company of the word "Homex" and for an accounting of the Company's profits and of damages incurred by reason of the alleged violation. In the opinion of the Company and its special counsel the claim by Homasote is without merit.

Competition

The Company and its subsidiaries must compete with numerous conventional builders, many of which possess much greater resources than the Company and its subsidiaries. In addition, conventional methods have a greater acceptance with many developers and housing authorities. The Company believes, however, that its manufactured housing is competitive in price and quality with conventional housing. There are other companies, some of which possess much greater resources than the Company and its subsidiaries, who use a manufacturing assembly-line technique similar to that used by the Company or who are actively engaged in research into such technique.

PROPERTIES

The Company's principal office and factory are located on 19 acres of land in Avon, New York and were erected in 1967. They consist of a brick and steel office building, an adjoining concrete block factory and a storage building having an aggregate area of 54,000 square feet. These facilities are presently being further expanded to provide approximately 16,400 square feet of additional office space and 7,300 square feet of additional factory and storage facilities.

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On August 18, 1969, the Company purchased a one-story steel and masonry building containing approximately 48,000 square feet and five acres of land in Avon, close to its present location. Upon completion of alterations, 4,700 square feet will be used for office facilities and the balance for manufacturing. The Company leases an office in Akron, Ohio, on a month-to-month basis at a rental of \$225 per month and leases a production facility in Avon for \$250 per month under a lease which expires on December 31, 1970.

A subsidiary of the Company owns approximately 442 acres of unimproved land in Clay, New York and smaller parcels in Akron, Ohio as land reserves for possible future development.

MANAGEMENT

The directors and officers of the Company are:

<u>Name</u>	<u>Office</u>
David Stirling, Jr.*	Chairman of the Board of Directors and Chief Executive Officer
William G. Stirling*	President and Director
Harold M. Yanowitch*	Executive Vice President, General Counsel and Director
Richard E. Karkow	Executive Vice President, Treasurer and Director
David Stirling, Sr.	Vice President and Director
Frank Csapo	Vice President—Manufacturing
Arthur E. Rosfeld	Vice President—Program Planning
E. A. Bartz	Vice President—Secretary
Edwin J. Schulz	Controller
Harper Sibley, Jr.*	Director
Theodore W. Kheel	Director
John W. Castellucci	Director

* Member of the Executive Committee.

Prior to organizing the Company in July 1968, David Stirling, Jr., William G. Stirling, David Stirling, Sr. and Frank Csapo had been officers of Stirling Bros., Inc., a multifamily housing development and operating company, since its organization in 1962.

Harold M. Yanowitch had been engaged in the practice of law for more than 20 years prior to joining the Company in June 1969. Prior to joining the Company, Mr. Yanowitch was a senior partner in the law firm of Yanowitch, Frank & Garrity.

Richard F. Karkow joined the Company in August 1969, after having been employed by The Kroger Co., a retail food and drug chain. Mr. Karkow was Treasurer of The Kroger Co. for three years prior to becoming Vice President and Treasurer in 1966.

Arthur E. Rosfeld joined the Company in September 1969, having been employed as Acting Deputy Assistant Secretary for the Housing Assistance Administration of HUD, which position he had assumed in August 1968. From May 1967 to September 1969 Mr. Rosfeld also served as the Director

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of the Operational Services Division of the Regional Housing Administration of HUD and from September 1966 with the Assistant Secretary for Renewal and Housing Assistance. During the two years prior thereto, Mr. Rosfeld worked as a private consultant on urban affairs.

E. A. Bartz was Controller of Stirling Bros., Inc. from 1966 to August 1968 when he joined the Company as Treasurer. Prior to 1966 Mr. Bartz was Controller of a real estate investment company for twelve years.

Edwin J. Schulz joined the Company in October 1968, after leaving his position as senior systems analyst of Armstrong Cork Co., Inc., a manufacturer of building products where he had been employed since prior to 1964.

Harper Sibley, Jr. was President of Sibley Corporation, a mortgage placement firm until March of this year, when he became Chairman of the Board of Directors. He was President of Dietrich-Sibley Agency, Inc., an insurance broker until 1967, when he became Chairman of its Board of Directors. Mr. Sibley is also a director of Western Union Telegraph Company, Central Trust Company of Rochester, New York and the Republic National Bank of New York.

Since prior to 1964 John W. Castellucci has been employed by the National Association of Blue Shield Plans, a trade association of medical insurance companies. He has been President since 1967 and served as Executive Vice President prior thereto.

Since 1949, Theodore W. Kheel has been a member of the law firm of Bartle, Fowler, Stokes & Kheel and has served as a mediator and arbitrator of labor disputes for approximately 30 years. Mr. Kheel is also a director of Western Union Telegraph Company, Athlone Industries, Inc., Combustion Equipment Associates, Inc. and the Republic National Bank of New York, of which he is also Chairman of the Board of Directors.

The following table sets forth information concerning the remuneration received during the fiscal year ended July 31, 1969 from the Company and its subsidiaries by each director and officer of the Company whose aggregate direct remuneration exceeded \$30,000 and by all directors and officers of the Company as a group:

<u>Name of Individual or Identity of Group</u>	<u>Capacities in Which Remuneration Was Received</u>	<u>Aggregate Remuneration (1)</u>
David Stirling, Jr.	President; Chairman of the Board and Chief Executive Officer	\$ 52,100
William G. Stirling	Executive Vice President, and Secretary; President	52,100
All directors and officers as a group (13 persons)		201,592(2)

(1) The Company has entered into five year employment contracts, effective September 1, 1969, with David Stirling Jr., William G. Stirling, Harold M. Yanowitch and Richard E. Karkow under which such persons will receive annual basic compensation of \$75,000, \$75,000, \$70,000 and \$65,000 respectively. The Company intends to adopt a profit sharing or pension plan during the current fiscal year.

(2) Does not include legal fees of \$38,490 paid to Yanowitch, Frank & Garrity, of which firm Harold M. Yanowitch, Executive Vice President and General Counsel and a Director, was a member until June 1, 1969.

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ORGANIZATION AND CERTAIN TRANSACTIONS

At the time of the Company's organization Messrs. David Stirling, Jr., William G. Stirling, David Stirling, Sr. and Harper Sibley, Jr. received, directly or through corporations which they controlled, an aggregate of 6,400,000 shares of Common Stock of the Company in return for the land, building and manufacturing facilities in Avon, a patent application, processes and know-how relating to the assembly-line manufacture of housing, \$6,000 in cash and the outstanding stock of three corporations in the land and housing development business. The stock of the three corporations and the physical assets acquired had a net aggregate book value of \$111,627 as determined by the accountants for the Company. The land, building and manufacturing facilities had been purchased or constructed by the founders of the Company at a total cost to them of approximately \$400,000, subject to liabilities of approximately \$300,000, and they had paid approximately \$11,000 for the stock of the three corporations.

and designees In June 1969 the Company issued and sold to Harold M. Yanowitch 100,000 shares and to Theodore W. Kheel 200,000 shares of its Common Stock at \$1.00 per share, and on August 11, 1969 issued and sold to Richard E. Karkow 100,000 shares at \$1.00 per share.

The Company has used the services of Dietrich-Sibley Agency, Inc., an insurance broker, in the purchase of its insurance policies and has paid \$78,573 in premiums to such agency. Mr. Sibley is an officer, director and principal stockholder of such corporation which received commissions on such insurance purchases at the regularly established rates. Assuming that the present policies remain in effect and are renewed at the appropriate times, Dietrich-Sibley Agency, Inc. will receive renewal commissions on such policies in the future.

In 1969 a subsidiary of the Company sold land to, and developed a modular housing complex in Clay, New York, for a limited partnership, of which Messrs. David Stirling, Jr. and William G. Stirling are limited partners, holding in the aggregate one-sixth of the partnership interest. A corporation controlled by Harper Sibley, Jr. made a construction loan of \$2,000,000 in connection with such complex, which loan has been repaid. The project has been completed and a total of approximately \$3,766,000 has been paid for the modules and services provided.

In 1969 the Company and a subsidiary completed the final portion of construction work on a modular housing development in Henrietta, New York, known as Fairways, Phase I, for a partnership, of which Messrs. David Stirling, Sr., David Stirling, Jr., William G. Stirling and Harper Sibley, Jr. were partners. Approximately \$919,000 was received for such work.

In 1969 the Company and a subsidiary completed performance of a contract for the sale and erection of modules which had been entered into with a corporation all of the stock of which is owned by David Stirling, Jr., William G. Stirling and Harold M. Yanowitch. The work was done at a site in Avon, New York for a price of approximately \$443,000.

Under a contract entered into in 1967 with a corporation, all of the stock of which is held by a corporation owned by Messrs. David Stirling, Sr., David Stirling, Jr., William G. Stirling and Harper Sibley, Jr., a subsidiary is doing the on-site construction work at a mobile home park in Clay, New York, owned by such corporation. The subsidiary has received approximately \$981,300 for such work.

In March 1969 a subsidiary of the Company purchased land from a corporation owned by David Stirling, Jr., William G. Stirling, David Stirling, Sr. and Harper Sibley, Jr. for \$123,500 and sold it to such corporation in July 1969 for \$128,862 (representing initial costs and improvements).

The Company considers the amounts received and to be received by it and its subsidiaries in the above-described transactions in line with amounts customarily charged for similar products and services.

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STOCK OPTION PLAN

The Company has a qualified Stock Option Plan under which a total of 400,000 shares of Common Stock are reserved for the grant of options (subject to adjustment for stock splits, stock dividends or any similar change affecting the Common Stock). The options are intended to be "qualified stock options" within the meaning of Section 422 of the Internal Revenue Code. The option price in each instance is 100% of the fair market value of the Common Stock on the date the option is granted.

As of September 23, 1969 options to purchase an aggregate of 112,840 shares of Common Stock at \$3.00 per share were held by eighteen employees, including three officers who held options to purchase 40,000 shares. All of such options expire in September 1974.

PRINCIPAL AND SELLING STOCKHOLDERS

Set forth below is certain information as of September 1, 1969, with respect to the ownership of Common Stock of the Company by each stockholder who is selling shares hereby (who include each holder of 10% or more of the outstanding Common Stock of the Company.)

Name and Address	Amount of Common Stock Owned	Percent of Outstanding Common Stock	Amount of Common Stock to Be Sold	Amount of Common Stock to be Owned After Sale	Percent of Common Stock to be Owned After Sale
David Stirling, Jr.*	2,046,652	24.2%			
William G. Stirling*	2,050,648	24.2			
Harper Sibley, Jr.*	1,370,400	16.2			
David Stirling, Sr.	456,100	5.4			

All directors and officers as a group (ten persons)* .	6,611,400	78.0			
Total			425,000		

* Includes some shares owned beneficially by members of the family of such stockholders.

David Stirling, Jr., William G. Stirling, Harper Sibley, Jr. and David Stirling, Sr. may be considered to be "parents" of the Company as that term is defined in the Securities Act of 1933.

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DESCRIPTION OF CAPITAL STOCK

Holders of shares of Common Stock are entitled to receive such dividends as may be declared by the Board of Directors from funds legally available therefor and, upon liquidation, are entitled to share pro rata in any distribution to stockholders. The Company has issued a promissory note, maturing December 15, 1970, under which it has agreed, while the note is outstanding, not to pay any cash dividends or make any distribution of its assets to its stockholders. The holders of shares of Common Stock have one vote per share and do not have preemptive rights. Shares of Common Stock are not redeemable and do not have conversion rights and are not liable to assessment or further calls by the Company.

The Company intends to furnish stockholders with annual reports which will contain audited financial statements.

The Transfer Agent for the Common Stock of the Company is First National City Bank, New York.

Non-Cumulative Voting

The Common Stock has non-cumulative voting rights which means that the holders of more than 50% of the shares voting for the election of directors can elect all of the directors if they choose to do so and, in such event, the holders of the remaining shares will not be able to elect any directors.

Dividends

The Company has not paid any cash dividends on its Common Stock. It anticipates reinvesting any earnings in its business and does not expect to pay any dividend on its Common Stock in the near future. See the discussion above for restrictions in a promissory note on the Company's ability to pay cash dividends.

Preferred Stock

Up to 500,000 shares of preferred stock, par value \$1.00 per share, may be issued from time to time in series with such series designation, number of shares in the series, relative rights, preferences and limitations as the Board of Directors of the Company may determine. Among the determinations to be made by the Board for each series would be (a) the dividend rate, and whether dividends would be cumulative; (b) conversion rights, if any, and the terms of any conversion; (c) the voting rights, if any, and (d) the rights of the Company to redeem such shares, and the terms of any redemption. Holders of preferred stock would not have preemptive rights.

No preferred stock has been issued and no plans have been made for any such issuance.

Government's Exhibit I

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UNDERWRITING

The Underwriters named below have agreed, subject to certain conditions, to purchase 400,000 shares from the Company and 425,000 shares from the Selling Stockholders. The respective percentages of the foregoing purchase obligations of each of the several Underwriters and the agreed number of shares of Common Stock to be purchased by each from the Company and the Selling Stockholders are set forth opposite the names of the several Underwriters below.

<u>Underwriter</u>	<u>Address</u>	<u>Percentage of Purchase Obligation</u>	<u>Number of Shares</u>
R. W. Pressprich & Co. Incorporated	80 Pine Street New York, New York 10005		

Total	100.00%	825,000
-------------	---------	---------

The Company has been advised by R. W. Pressprich & Co. Incorporated, as Representative of the Underwriters, that the shares are being offered by the Underwriters in part directly to the public as set forth on the cover page of this Prospectus and in part to certain securities dealers at the initial public offering price less a concession of not in excess of _____ cents per share; that the Underwriters may allow, and such dealers may reallow, a concession of not in excess of _____ cents per share to certain other dealers; and that after the shares are released for sale to the public, the initial public offering price and concessions to dealers may be varied from time to time by the Representative.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

The Selling Stockholders have agreed that they will not, during a period of 90 days from the date of this Prospectus, sell or otherwise dispose of any shares of the Company's Common Stock without the consent of the Representative.

Government's Exhibit I

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On April 14, 1969 R. W. Pressprich & Co. Incorporated ("Pressprich") purchased 68,400 shares of Common Stock of the Company for an aggregate purchase price of \$68,400, which shares may be repurchased by the Company at their purchase price at any time up to the earlier of February 23, 1970 or the first date upon which there is a public market for the Company's Common Stock. If the stock is not repurchased pursuant to the foregoing provisions, Pressprich has agreed until April 14, 1971 not to make any disposition thereof without the prior written consent of the Company. In addition, the Company has agreed to sell to Pressprich for its own account and/or for the account of its profit sharing plan 25,000 shares of Common Stock at a price per share equal to the initial public offering price set forth on the cover page. Pressprich has agreed that it will not, without the consent of the Company, sell or otherwise dispose of any such shares for a period of one calendar year after the closing date.

LEGAL OPINIONS

The legality of the Common Stock offered hereby is being passed upon for the Company and the Selling Stockholders by Shea Gallop Climenko & Gould, 330 Madison Avenue, New York, New York 10017, and for the Underwriters by Winthrop, Stimson, Putnam & Roberts, 40 Wall Street, New York, New York 10005.

EXPERTS

The financial statements and supporting schedules included herein and elsewhere in the Registration Statement have been examined by Harris, Kerr, Forster & Company, independent certified public accountants, and have been included herein and therein in reliance upon their authority as experts.

ADDITIONAL INFORMATION

This Prospectus does not contain all the information set forth in the Registration Statement and the exhibits and schedules relating thereto, which the Company has filed with the Securities and Exchange Commission, Washington, D.C., under the Securities Act of 1933 and to which reference is hereby made. It does, however, contain a fair summary of the material portions of that information. There has not knowingly been any omission of a material fact or the inclusion of any untrue statement of a material fact in this Prospectus.

Government's Exhibit I

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
STIRLING HOMEX CORPORATION

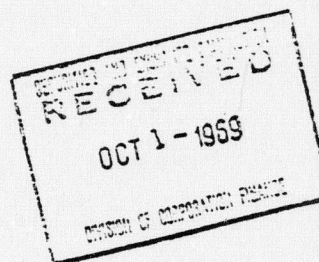
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We have examined the balance sheets of Stirling Homex Corporation and Stirling Homex Corporation and Subsidiaries Consolidated as of July 31, 1969 and the related summary of operations and paid-in surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements, together with the related notes, present fairly the financial position of Stirling Homex Corporation and Stirling Homex Corporation and Subsidiaries Consolidated at July 31, 1969 and the results of their operations for the year then ended in conformity with generally accepted accounting principles.

[Signature]
HARRIS, KERR, FORSTER & COMPANY

New York, N. Y.
August 27, 1969



Government's Exhibit I

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**STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED**

BALANCE SHEETS

July 31, 1969

ASSETS

	<u>Parent</u>	<u>Consolidated</u>
Current Assets:		
Cash	\$ 973,648	\$1,420,160
Receivables:		
Trade	17,089	2,321,601
Notes and accounts receivable from affiliated companies (Note 2)	11,512	353,316
Unbilled construction costs receivable (Note 3)	—	297,879
Current portion of long-term receivables (Note 4)	—	131,088
	<u>23,601</u>	<u>3,108,884</u>
Inventories:		
Salable merchandise, work in process and raw materials, at cost (Note 5)	1,137,299	1,137,299
Land held for development, at cost (Notes 5 and 8)	—	1,377,710
	<u>1,137,299</u>	<u>2,515,009</u>
Investments in and receivables from subsidiary companies (eliminated in consolidation):		
Capital shares of subsidiaries	12,200	—
Due from subsidiaries	3,873,129	—
	<u>3,885,329</u>	<u>—</u>
Prepaid expenses	87,725	89,792
Total current assets	<u>6,112,602</u>	<u>7,133,845</u>
Long-Term Receivables (Note 4)	—	584,546
Property, Plant and Equipment, at Cost (Notes 6 and 8)	1,049,279	1,105,847
Less: Accumulated Depreciation	55,355	62,382
	<u>993,924</u>	<u>1,043,465</u>
Deferred Charges (Note 7)	342,304	342,304
Total	<u>\$7,448,830</u>	<u>\$9,104,160</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Government's Exhibit I

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STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED

BALANCE SHEETS

July 31, 1969

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>Parent</u>	<u>Consolidated</u>
Current Liabilities:		
Current portion of long-term debt (Note 8)	\$1,049,812	\$1,311,336
Accounts payable and accrued expenses	439,768	558,018
Federal and State income taxes (Notes 9 and 10)	250,102	552,068
Total current liabilities	1,739,682	2,421,422
Long-Term Debt (Note 8)	2,761,873	3,423,952
Deferred Income Taxes (Note 9)	185,706	187,021
Contingent Liabilities (Note 10)	—	—
Total liabilities	4,687,261	6,032,395
Stockholders' Equity:		
Common stock, par value \$.01 per share, authorized 2,500,000 shares, issued and outstanding 2,092,100 shares (Notes 11 and 12)	20,921	20,921
Paid-in surplus	2,012,576	2,012,576
Retained earnings:		
Balance—August 1, 1968	—	—
Net income for the year ended July 31, 1969	728,072	1,038,268
Balance—July 31, 1969	728,072	1,038,268
Total stockholders' equity	2,761,569	3,071,765
Total	\$7,448,830	\$9,104,160

The accompanying Notes to Financial Statements are an integral part of this statement.

Government's Exhibit I

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STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED

STATEMENT OF PAID-IN SURPLUS

For the Year Ended July 31, 1969

Balance—August 1, 1968	\$ —
Additions:	
Excess of book value of assets acquired over par value of shares issued in an exchange transaction effective August 1, 1968 (Note 1)	101,627
Excess of issue price over par value of 492,100 shares of common stock (less expenses of \$52,530)	1,910,949
Balance—July 31, 1969	<u>\$2,012,576</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Government's Exhibit I

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STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED
NOTES TO FINANCIAL STATEMENTS
July 31, 1969

1. HISTORY AND BASIS OF CONSOLIDATION:

Stirling Homex Corporation (the Company) was incorporated on July 22, 1968 and commenced operations on August 1, 1968 with the following transactions:

The Company exchanged 950,000 shares of its common stock for all of the outstanding stock of Kabeth Properties, Inc., Hollyrood Park II, Inc., and Elmsite Homes, Inc.

The Company also exchanged 50,000 shares of its common stock for the net assets of an affiliated company which had engaged in the manufacture of modular housing.

Subsequent to August 1, 1968, the Company purchased the outstanding stock of Henrietta Construction Corporation and Gaskin Properties, Inc. for \$1,100.

All of the assets acquired were recorded at their book value at the respective transaction dates and are considered purchase acquisitions.

The consolidated financial statements include the accounts of the five wholly-owned subsidiaries and, in consolidation, all material intercompany accounts were eliminated.

At July 31, 1969, the Company's equity in the net assets of its subsidiaries was \$310,201 in excess of its investment therein which represents undistributed earnings of the subsidiaries since their dates of acquisition and has been included in consolidated retained earnings.

2. NOTES AND ACCOUNTS RECEIVABLE FROM AFFILIATED COMPANIES:

The receivables represent sales to companies in which certain officers and directors of the Company or members of their immediate families have an equity interest.

3. UNBILLED CONSTRUCTION COSTS RECEIVABLE:

A wholly-owned subsidiary of the Company is in the process of completing site work for various housing projects located in Akron, Ohio and Massena, New York under fixed price contracts at July 31, 1969. The subsidiary uses the completed contract method of recording income or losses from these contracts.

4. LONG-TERM RECEIVABLES:

	Consolidated	
	Current Portion	Long-Term Portion
Notes Receivable:		
Non-interest bearing demand notes	\$ 30,000	\$ —
Mortgages Receivable (See (a) below)		
Mortgage due June 1, 1974—amortization payments of \$2,500 due quarterly beginning the first day of September 1969, with interest at the prime commercial rate in effect on the interest payment date	10,000	249,124
Mortgage due June 30, 1975—amortization payments of \$25,000 due June 30, 1973 and June 30, 1974 and the balance due June 30, 1975. Interest payable annually at the prime commercial rate in effect on the interest payment date	—	302,000
Claim for land appropriated by State of New York—at cost of land. Approximately 75% of offer by the State payable currently	91,088	33,422
Total	\$131,088	\$584,546

(a) The mortgage notes are secured by mortgages on property located in the Town of Clay, New York.

Government's Exhibit I

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**STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED
NOTES TO FINANCIAL STATEMENTS—(Continued)**

5. INVENTORIES:

(a) The Company, which commenced operations August 1, 1968, purchased the necessary raw materials during the fiscal year. At July 31, 1969 the amount of inventories consisted of the following:

	<u>Parent</u>	<u>Consolidated</u>
Salable Merchandise	\$ 653,872	\$ 653,872
Work in Process	12,000	12,000
Raw Materials	471,427	471,427
Total	<u>\$1,137,299</u>	<u>\$1,137,299</u>

(b) Land held for development by a wholly-owned subsidiary is recorded at its original cost together with real estate taxes, mortgage interest and other expenses. At July 31, 1969 the Company had no definite plans for the development of this land.

6. PROPERTY, PLANT AND EQUIPMENT:

	<u>Parent</u>	<u>Consolidated</u>
The property, plant and equipment comprised:		
Land	\$ 64,072	\$ 64,072
Land Improvements	124,038	124,038
Buildings	444,498	444,498
Machinery and Loose Tools	62,876	65,211
Delivery and Construction Equipment	272,639	322,809
Furniture, Fixtures and Office Equipment	81,156	85,219
	<u>1,049,279</u>	<u>1,105,847</u>
Less: Accumulated depreciation	55,355	62,382
Total	<u>\$ 993,924</u>	<u>\$1,043,465</u>

Depreciation of buildings is provided for on a straight-line method over estimated useful lives of forty-five years. Improvements, furniture and equipment are being depreciated on a straight-line method over estimated useful lives ranging from one to twenty years.

Maintenance and repairs are charged to expense as incurred. Renewals and betterments are capitalized. Generally, when properties are retired, sold or otherwise disposed of, the cost and the related accumulated depreciation and amortization, if determinable, will be removed from the accounts, and gains and losses resulting from such transactions will be reflected in income.

Government's Exhibit 1

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STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED
NOTES TO FINANCIAL STATEMENTS—(Continued)

7. DEFERRED CHARGES:

The deferred charges consist of:

	Parent	Consolidated
Research and development expenses	\$ 65,921	\$ 65,921
Start-up expenses	133,461	133,461
Initial promotional expenses	102,980	102,980
Organizational cost, underwriting expenditures and other	39,942	39,942
Total	<u>\$342,304</u>	<u>\$342,304</u>

Research and development expenses are amortized over a sixty month period upon acceptance of a project design and are written off if a project design is cancelled.

Start-up expenses are being amortized over periods ranging from thirty-six to sixty months.

Initial promotional expenses and organizational expenses are being amortized over a sixty month period.

8. LONG-TERM DEBT:

	Parent		Consolidated	
	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion
Bank Loans Payable (See (a) below):				
Bank loans, maturing from September 2, 1969 to September 1, 1970 bearing interest at rates ranging from 7½% to 9%. (Payment due September 2, 1969 refinanced) ..	\$1,000,000	\$2,700,000	\$1,000,000	\$2,700,000
Mortgages Payable (See (b) below):				
Mortgages maturing from October 16, 1970 through February 3, 1974 and bear interest at rates ranging from 5% to 6%. These mortgages encumber land carried at the aggregate amount of \$1,377,710 .	—	—	251,301	655,923
Installment Contracts Payable (See (c) below):				
Installment contracts maturing from April 3, 1970 through April 1, 1973	34,920	50,170	35,901	50,170
Long-Term Lease Purchases (See (c) below):				
Lease purchase agreements maturing from January 1, 1971 through September 1, 1972	14,892	11,703	24,134	17,859
Total	<u>\$1,049,812</u>	<u>\$2,761,873</u>	<u>\$1,311,336</u>	<u>\$3,423,952</u>

Government's Exhibit 1

42501

STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED

NOTES TO FINANCIAL STATEMENTS—(Continued)

(a) The bank loan agreement includes, among other things, restrictive covenants relating on a consolidated basis to indebtedness, equity and the payment of cash dividends.

(b) The mortgages mature on various dates through February 3, 1974 and require principal payments over the next five fiscal years as follows:

Fiscal Year Ended	Amount
1970	\$251,301
1971	272,680
1972	253,993
1973	89,250
1974	40,000

(c) Equipment with a gross book value of \$170,287 was encumbered under conditional sales contracts of \$128,064.

9. DEFERRED INCOME TAXES:

Deferred income taxes of \$185,706 and \$187,021 respectively are attributable to using the straight-line method of depreciation for book purposes and accelerated depreciation methods for income tax purposes and also to amortizing deferred items over three and five-year periods for book purposes and expensing them in the year incurred for tax purposes.

10. CONTINGENT LIABILITIES:

Two wholly-owned subsidiaries remain contingently liable as makers on first mortgages aggregating \$76,376, the encumbered properties of which were sold during the current year.

The Company will file a consolidated Federal Income Tax Return for the current year. This return is subject to the usual review by the Internal Revenue Service. Investment credit amounting to \$18,184 will be used by the Company in filing its consolidated Federal Income Tax Return.

An action has been brought to enjoin the use of the word "Homex" by the Company. In the opinion of management this action has no merit and would have no material effect on the accompanying financial statements. See also caption "Legal Proceedings" elsewhere in this Prospectus.

11. COMMON STOCK:

The transactions in common stock during the year are as follows

	Issued and Outstanding	Par Value
Stock issued in an exchange for stock and net assets (See Note 1)	1,000,000	\$10,000
Stock issued at par for cash, patents, copyrights and processes (the last three carried at \$1.00)	600,000	6,000
Stock sold at \$4.00 per share (excess of sales price over par value credited to paid-in surplus), during the year ended July 31, 1969	492,100	4,921
Total	2,092,100	\$20,921

The Company is planning to increase the authorized number of shares of common stock from 2,500,000 shares to 15,000,000 and to authorize 500,000 shares of \$1.00 par value preferred stock. In connection therewith the outstanding shares of common stock will be split four for one. Except for the Summary of Earnings appearing elsewhere in this Prospectus, the accompanying financial statements do not reflect this change.

Government's Exhibit 1

42502

STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED
NOTES TO FINANCIAL STATEMENTS—(Continued)

12. STOCK OPTION PLAN:

A qualified stock option plan was approved by the stockholders on November 22, 1968 whereby options to purchase 100,000 shares of common stock may be granted to officers and key employees at not less than the fair market value on the date of grant. Options are exercisable over a period of not more than five years from date of grant. As of July 31, 1969, no options had been granted.

The Company will make no charges to income with respect to stock options granted and when options are exercised the excess of the option price over the par value of common stock issued will be credited to paid-in surplus.

13. SALES:

	<u>Parent</u>	<u>Consolidated</u>
The sales for the year ended July 31, 1969 comprised:		
Sales—Trade	\$ 215,200	\$ 3,951,726
Sales to affiliated companies (See Note 2)	595,922	6,140,338
Sales to Wholly-Owned Subsidiaries (eliminated in consolidation)	5,115,150	—
Total	<u>\$5,926,272</u>	<u>\$10,092,064</u>

14. SUPPLEMENTARY PROFIT AND LOSS INFORMATION:

Supplementary information not appearing as a separate item in the statements is as follows:

AS TO STIRLING HOMEX CORPORATION:

Maintenance and Repairs:	
Cost of sales	\$22,221
Administrative and selling expenses	257
Depreciation and Amortization:	
Cost of sales	63,058
Taxes other than taxes on income:	
Payroll taxes:	
Cost of sales	62,787
Administrative and selling expenses	7,340
Property taxes:	
Cost of sales	5,925
Rents:	
Cost of sales	3,386
Administrative and selling expenses	11,445

Government's Exhibit 1

42503

STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED

NOTES TO FINANCIAL STATEMENTS—(Continued)

AS TO STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED:

Maintenance and Repairs:	
Cost of sales	\$22,221
Administrative and selling expenses	257
Depreciation and Amortization:	
Cost of sales	67,985
Uncompleted contract cost	2,100
Taxes other than taxes on income:	
Payroll taxes:	
Cost of sales	89,846
Administrative and selling expenses	7,540
Land cost	476
Property taxes:	
Cost of sales	6,347
Land cost	18,432
Rents:	
Cost of sales	3,386
Administrative and selling expenses	11,445

There were no management fees, service fees or royalties paid during the year ended July 31, 1969.

E 29

Government's Exhibit 1

42504

STIRLING
CORPORATION



825,000 Shares

Common Stock

PROSPECTUS

, 1969

R.W. pressprich
& Co. INCORPORATED

Government's Exhibit 1

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

42505

Item 22. Marketing Arrangements.

Reference is made to "Underwriting" in the Prospectus and to Article III of the Agreement Among Underwriters, to Article VII of the Underwriting Agreement and to the fifth and sixth paragraphs of the Selling Agreement, filed as Exhibit 1 hereto.

Item 23. Other Expenses of Issuance and Distribution.

The expenses in connection with the issuance and distribution of securities being registered other than underwriting discounts and commissions are estimated as follows:

Registration fee	\$ 2,388
Printing	*
Accounting fees and expenses	*
Legal fees and expenses	*
Blue Sky fees and expenses	*
Transfer Agent and Registrar fees	*
Miscellaneous	*
Total	\$

All the foregoing expenses, except accounting, transfer agent and registrar fees and related expenses, which are being paid by the Company, are being shared by the Selling Stockholders and the Company in proportion to the amount of shares each such Selling Stockholder and the Company are selling.

* To be supplied by amendment.

Item 24. Relationship with Registrant of Experts Named in Registration Statement.

None.

Item 25. Sales to Special Parties.

During the six month period commencing March 15, 1969, an aggregate of 472,400 shares of Common Stock of the Company, as now constituted, were sold by the Company to 14 persons, which group included R. W. Pressprich & Co. Incorporated and five employees and directors, for an aggregate cash consideration of \$472,400.

See "Stock Option Plan" with respect to issuances which may be made in the future.

Item 26. Recent Sales of Unregistered Securities.

On July 31, 1968, the Company, in connection with its organization, made the following issuances of its Common Stock, as now constituted: (a) an aggregate of 2,400,000 shares to David Stirling, Jr., William G. Stirling and Harper Sibley, Jr. in exchange for the assignment to the Company of the know-how, processes and developments relating to the manufacture of modular housing, the U. S. patent application covering such know-how, processes and developments and a cash payment of \$6,000; (b) 1,200,000 shares to Harling Properties, Inc., all of the stock of which is owned by Harper Sibley, Jr. and Hickory Hill Development Corporation (all of the stock of which is owned by David Stirling, Sr., David Stirling, Jr. and William G. Stirling) in exchange for all of the outstanding stock of Kabeth Properties, Inc.; (c) 2,600,000 shares to Stirling Brothers Operating Co., Inc., all of the stock of which is owned by David Stirling, Jr., William G. Stirling and David Stirling, Sr., in exchange for all of the outstanding stock of Hollyrood Park II, Inc. and Elmsite Homes, Inc.; (d) 200,000 shares to Stirling Cubet Corporation, all of the stock of which is owned by Stirling Brothers Operating Co., Inc., in exchange for certain of its assets, including the plant and land in Avon, New York currently used by the Company as its executive offices and manufacturing facility. In each instance, the shares were issued without the use of underwriters and the shareholder took his shares for investment. On August 16, 1968 the Company issued and sold 800,000 shares each to Coenen Securities Corporation and Saunders Stiver and Company as agents for 53 persons (Saunders Stiver took 312,500 of such shares for its own account) each of whom took the shares for investment, in exchange for an aggregate cash payment of \$1,600,000. Coenen and Saunders Stiver received a fee of \$15,000 each in connection with such sale of 1,600,000 shares.

Government's Exhibit 1

42506

In addition, during the period subsequent to the Company's organization through August 11, 1969, (the date of the last sale), the Company issued and sold an aggregate of 472,400 shares of its Common Stock to 14 persons, including R. W. Pressprich & Co. Incorporated and five employees, officers and directors, for an aggregate cash consideration of \$472,400. No underwriters were involved and each of such persons took his shares for investment.

During the period from the adoption of its Stock Option Plan in November 1968 through September 23, 1969, the Company has granted options to purchase 112,840 shares of its Common Stock to eighteen key employees of the Company. Such options cannot be transferred except upon the death of the option holder.

See "Capitalization" and Note 3 to Financial Statements with respect to notes the Company has issued and sold.

With respect to all of the above transactions, the Company relied upon the exemption provided in Section 4(2) of the Securities Act of 1933.

Item 27. Subsidiaries of Registrant.

The four wholly-owned subsidiaries of the Company are New York corporations included in the consolidated financial statements:

Henrietta Construction Corporation
Hollywood Park II, Inc.
Kabeth Properties, Inc.
Elmsite Homes, Inc.
Gaskin Properties, Inc.

Item 28. Franchises and Concessions.

None.

Item 29. Indemnification of Directors and Officers.

Section 145 of the General Corporation Law of the State of Delaware provides for the indemnification of officers and directors under certain circumstances against expenses incurred in successfully defending against a claim and authorizes Delaware corporations to indemnify their officers and directors under certain circumstances against expenses and liabilities incurred in legal proceedings involving such persons because of their being or having been an officer or director. The Certificate of Incorporation of the Company provides for indemnification of its officers and directors as authorized by such section. Reference is also made to Article IX of the Underwriting Agreement filed as Exhibit 1 hereto.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions or otherwise, the Company understands that it is the opinion of the Securities and Exchange Commission that such indemnification is against public policy as expressed in such Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than payment by the Company of expenses incurred or paid by a director, officer or controlling person in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Item 30. Treatment of Proceeds from Stock Being Registered.

Of the net proceeds to be received by the Company from the sale by it of shares of Common Stock registered hereby, \$.01 per share will be credited to the capital stock account and the balance will be credited to paid in surplus.

Government's Exhibit 1

Item 31. Financial Statements and Exhibits.

42507

(a) Financial Statements:

Included in Prospectus

Report of Independent Certified Public Accountants
 Parent and Consolidated Balance Sheets at July 31, 1969
 Parent and Consolidated Summary of Earnings for the year ended July 31, 1969
 Parent and Consolidated Statement of Paid-in Surplus for the year ended July 31, 1969.
 Notes to Financial Statements

Included in Registration Statement

Report of Independent Certified Public Accountants relating to Schedules
 Consent of Independent Certified Public Accountants

Schedule
Number

III	—Investments in Securities of Affiliates.
V	—Property, Plant and Equipment
VI	—Reserves for Depreciation and Amortization of Property, Plant and Equipment
IX	—Bonds, Mortgages and Similar Debt
XIII	—Capital Shares

All other schedules for which provision is made in the applicable regulation of the Securities and Exchange Commission have been omitted either because they are not required under the related instructions, they are not applicable, or the information required has been otherwise given.

(b) Exhibits:

- 1 —Forms of Agreement Among Underwriters, Underwriting Agreement and Selling Agreement.
- 2 —Agreement dated July 31, 1968 among David Stirling, Jr., William Stirling, Harper Sibley, Jr., the Company, Harling Properties, Inc., Stirling Brothers Operating Co., Inc. and Stirling Cubet Corporation.
- 3a —Certificate of Incorporation.
- 3b —By-Laws.
- 4 —Specimen Common Stock Certificate (to be supplied by amendment).
- 5a —Qualified Stock Option Plan.
- 5b —Form of Stock Option Agreement.
- 6 —Opinion of Shea Gallop Climenko & Gould (to be supplied by amendment).
- 12 —See Exhibit 1 and 3a.
- 13a —Agreement dated September 23, 1968 with Local 1106, United Brotherhood of Carpenters and Joiners of America.
- 13b —Agreement dated June 17, 1969 with the national office of the United Brotherhood of Carpenters and Joiners of America.
- 13c —Agreement dated December 6, 1968 between Hollyrood Park II, Inc. and Carlure Holding Corp. for sale of land.
- 13d —Agreement dated December 6, 1968 between Hollyrood Park II, Inc. and Carlure Holding Corp. for sale of buildings.
- 13e —Letter of intent dated September 16, 1969 from the Akron Metropolitan Housing Authority.
- 13f —Letter of intent dated August 7, 1969 from the Rochester Housing Authority.
- 13g —Employment agreement with David Stirling, Jr., dated August 29, 1969 (Pursuant to Rule 446, there are omitted employment agreements with William G. Stirling, Richard E. Karkow and Harold M. Yanowitch, which are substantially identical with that of David Stirling, Jr., except for the offices held (President, Executive Vice President and Treasurer and Executive Vice President and General Counsel, respectively) and salaries (\$75,000, \$65,000 and \$70,000, respectively).

Government's Exhibit 1

42508

UNDERTAKINGS

The registrant undertakes with respect to the 93,400 shares of its Common Stock issued or to be issued to R. W. Pressprich & Co. Incorporated, that (1) any prospectus revised to show the terms of offering of such shares (other than a transaction on a national securities exchange), and (2) any prospectus revised to comply with the requirements of Section 10(a)(3) of the Securities Act of 1933, will be filed as a post-effective amendment to the registration statement prior to any offering thereof; and that the effective date of each such amendment shall be deemed the effective date of the registration statement with respect to securities sold after such amendment shall have become effective.

Government's Exhibit 1

SIGNATURES

42509

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in New York, New York, on the 28 day of September, 1969.

STIRLING HOMEX CORPORATION

By

(Harold M. Yanowitch, Executive Vice President)

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed below by the following persons in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>*DAVID STIRLING, JR.</u> (David Stirling, Jr.)	Chairman of the Board of Directors and Chief Executive Officer, Director (Principal Executive Officer)	
<u>Richard E. Karkow</u> (Richard E. Karkow)	Treasurer, Director (Principal Financial Officer)	
<u>*EDWIN J. SCHULZ</u> (Edwin J. Schulz)	Controller (Principal Accounting Officer)	
<u>*WILLIAM G. STIRLING</u> (William G. Stirling)	Director	
<u>Harold M. Yanowitch</u> (Harold M. Yanowitch)	Director	
<u>*DAVID STIRLING, SR.</u> (David Stirling, Sr.)	Director	
<u>*HARPER SIBLEY, JR.</u> (Harper Sibley, Jr.)	Director	
<u>*THEODORE W. KHEEL</u> (Theodore W. Kheel)	Director	
<u>John W. Castellucci</u> (John W. Castellucci)	Director	
<u>*By, Harold M. Yanowitch</u> (Harold M. Yanowitch, Attorney-in-Fact)		

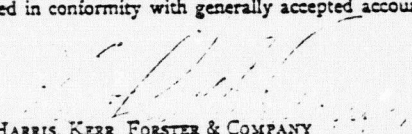
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Government's Exhibit 1

62510
CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

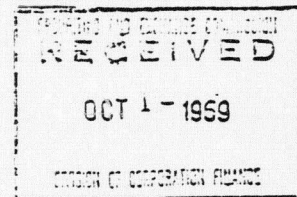
We hereby consent to the inclusion of our report dated August 27, 1969 on the financial statements of Stirling Homex Corporation and Stirling Homex Corporation and Subsidiaries Consolidated appearing in the Registration Statement (Form S-1) and related prospectus of Stirling Homex Corporation under the Securities Act of 1933, as amended, in connection with the registration of Common Stock \$0.01 par value, of the Company. We further consent to the use of our name in the heading "Summary of Earnings" and "Experts" in the prospectus.

In the course of our examination of the financial statements of Stirling Homex Corporation and Stirling Homex Corporation and Subsidiaries Consolidated, which are included in the accompanying prospectus, we also examined the indicated schedules listed under item 31(a) of the Registration Statement for the year ended July 31, 1969. In our opinion such schedules present fairly the financial data required to be set forth therein and were prepared in conformity with generally accepted accounting principles.


HARRIS, KERR, FORSTER & COMPANY

New York, N. Y.
September 30, 1969

The consent of Shea Gallop Climenko & Gould will be contained in their opinion to be filed as Exhibit 6 hereto.



II-6

STIRLING HOMEX CORPORATION
INVESTMENTS IN SECURITIES OF AFFILIATES
July 31, 1969

S-1	Column A Name of Issuer and Title of Issue	Column B Balance at Beginning of Period		Column C Additions		Column D Deductions		Column E Balance at Close of Period	
		(1) Number of Shares or Units, Principal Amount of Bonds and Notes	(2) Amount in Dollars	(1) Number of Shares or Units, Principal Amount of Bonds and Notes	(2) Amount in Dollars	(1) Number of Shares or Units, Principal Amount of Bonds and Notes	(2) Amount in Dollars	(1) Number of Shares or Units, Principal Amount of Bonds and Notes	(2) Amount in Dollars
	SUBSIDIARIES CONSOLIDATED:								
	Henrietta Construction Corporation ...	—	\$ —	100	\$ 100.00	—	\$ —	100	\$ 100.00
	Kabeth Properties, Inc.	—	—	200	10,000.00	—	—	200	10,000.00
	Hollywood Park II, Inc.	—	—	100	1,000.00	—	—	100	1,000.00
	Elmsite Homes, Inc.	—	—	100	100.00	—	—	100	100.00
	Gaskin Properties, Inc.	—	—	100	1,000.00	—	—	100	1,000.00
	Total		<u>\$ —</u>		<u>\$12,200.00</u>		<u>\$ —</u>		<u>\$12,200.00</u>

Reference is made to Note 1 of Notes to Financial Statements regarding the above acquisitions.

Government's Exhibit 1

SCHEDULE V

STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED
PROPERTY, PLANT AND EQUIPMENT
For the Year Ended July 31, 1969

42512

Column A	Column B	Column C	Column D	Column E	Column F
Classification	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Other Changes Debit and/or (Credit)	Balance at Close of Period
TO STIRLING HOMEX CORPORATION:					
Land and Improvements	\$ —	\$ 188,110	\$ —	\$ —	\$ 188,110
Buildings	—	435,579	—	—	435,579
Office Furniture and Fixtures ...	—	47,747	—	—	47,747
Machinery	—	11,052	—	—	11,052
Delivery and Construction Equipment	—	272,639	—	—	272,639
Loose Equipment and Tools	—	59,527	7,703	—	51,824
Office Machines	—	33,409	—	—	33,409
Construction in Progress	—	8,919	—	—	8,919
TOTAL—STIRLING HOMEX CORPORATION	\$ —	\$1,056,982	\$ 7,703	\$ —	\$1,049,279
AS TO STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED:					
Land and Improvements	\$ —	\$ 188,110	\$ —	\$ —	\$ 188,110
Buildings	—	435,579	—	—	435,579
Office Furniture and Fixtures ...	—	51,705	—	—	51,705
Machinery	—	11,051	—	—	11,051
Delivery and Construction Equipment	—	322,809	—	—	322,809
Loose Equipment and Tools	—	61,863	7,703	—	54,160
Office Machines	—	33,514	—	—	33,514
Construction in Progress	—	8,919	—	—	8,919
TOTAL—STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED	\$ —	\$1,113,550	\$ 7,703	\$ —	\$1,105,347

Government's Exhibit 1

SCHEDULE VI

42513

STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED

RESERVES FOR DEPRECIATION AND AMORTIZATION OF
PROPERTY, PLANT AND EQUIPMENT

For the Year Ended July 31, 1969

Column A	Column B	Column C		Column D		Column E
Classification	Balance at Beginning of Period	Additions		Deductions from Reserves		Balance at Close of Period
		(1)	(2)	(1)	(2)	
		Charged to Profit and Loss or Income	Charged to Other Accounts	Retirements, Renewals, and Replacements	Other	
AS TO STIRLING HOMEX CORPORATION:						
Land Improvements	\$ —	\$ 3,096	\$ —	\$ —	\$ —	\$ 3,096
Buildings	—	6,583	—	—	—	6,583
Office Furniture and Fixtures ...	—	2,544	—	—	—	2,544
Machinery	—	135	—	—	—	135
Delivery and Construction Equip- ment	—	28,674	—	—	—	28,674
Loose Equipment and Tools	—	20,447	—	7,703	—	12,744
Office Machines	—	1,579	—	—	—	1,579
TOTAL—STIRLING HOMEX CORPORA- TION	<u>\$ —</u>	<u>\$63,058</u>	<u>\$ —</u>	<u>\$ 7,703</u>	<u>\$ —</u>	<u>\$55,355</u>
AS TO STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED:						
Land Improvements	\$ —	\$ 3,096	\$ —	\$ —	\$ —	\$ 3,096
Buildings	—	6,583	—	—	—	6,583
Office Furniture and Fixtures ...	—	2,711	—	—	—	2,711
Machinery	—	135	—	—	—	135
Delivery and Construction Equip- ment	—	33,895	1,050(A)	—	—	34,945
Loose Equipment and Tools	—	19,981	1,050(A)	7,703	—	13,328
Office Machines	—	1,584	—	—	—	1,584
TOTAL—STIRLING HOMEX CORPORA- TION AND SUBSIDIARIES CONSOLI- DATED	<u>\$ —</u>	<u>\$67,985</u>	<u>\$ 2,100</u>	<u>\$ 7,703</u>	<u>\$ —</u>	<u>\$62,382</u>

(A) Included in unbilled construction costs.

**STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED
BONDS, MORTGAGES AND SIMILAR DEBT
July 31, 1969**

Column A	Column B	Column C	Column D		Column E	Column F	Column G	Column H		
Name of Issuer and Title of Each Issue	Amount Authorized By Indenture	Amount Issued and Not Retired or Cancelled	Amount Included in Column C Which is		Amount Included in Sum Extended Under Caption "Long Term Debt" in Related Balance Sheets	Amount in Sinking and Other Special Funds of Issuer Thereof	Amount Pledged By Issuer Thereof	Amount Held by Affiliates for Which Statements are Filed Herewith		
			(1) Held By or For Account of Issuer Thereof	(2) Not Held By or For Account of Issuer Thereof				(1) Persons Included in Consolidated Statements	(2) Others	
AS TO STIRLING HOMEX CORPORATION:										
Bank Loans Payable:										
Bank loans maturing from September 2, 1969 to September 1, 1970 bearing interest at rates from 7½% to 9%	\$3,700,000	\$3,700,000	None	\$3,700,000	\$2,700,000	None	None	None	None	None
Installment Contracts Payable:										
Installment contracts maturing on various dates from April 5, 1970 to April 1, 1973	107,624	85,090	None	85,090	50,170	None	None	None	None	None
Long-Term Lease Purchases:										
Lease purchase agreements maturing on various dates from January 1, 1971 to September 1, 1972	47,249	26,595	None	26,595	11,703	None	None	None	None	None
TOTAL—STIRLING HOMEX CORPORATION	\$3,854,873	\$3,811,685	None	\$3,811,685	\$2,761,873	None	None	None	None	None
AS TO STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED:										
Bank Loans Payable:										
Bank loans maturing from September 2, 1969 to September 1, 1970 bearing interest at rates from 7½% to 9%	\$3,700,000	\$3,700,000	None	\$3,700,000	\$2,700,000	None	None	None	None	None
Installment Contracts Payable:										
Installment contracts maturing on various dates from April 5, 1970 to April 1, 1973	110,239	86,071	None	86,071	50,170	None	None	None	None	None
Long-Term Lease Purchases:										
Lease purchase agreements maturing on various dates from January 1, 1971 to September 1, 1972	74,964	41,993	None	41,993	17,859	None	None	None	None	None

Government's Exhibit 1

E 39

42514
SCHEDULE IX

STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED
BONDS, MORTGAGES AND SIMILAR DEBT—(Continued)
July 31, 1969

Column A	Column B	Column C	Column D		Column E	Column F	Column G	Column H		
Name of Issuer and Title of Each Issue	Amount Authorized By Indenture	Amount Issued and Not Retired or Cancelled	Amount Included in Column C Which is		Amount Included in Sum Extended Under Caption "Long Term Debt" in Related Balance Sheets	Amount in Sinking and Other Special Funds of Issuer Thereof	Amount Pledged By Issuer Thereof	Amount Held by Affiliates for Which Statements are Filed Herewith		
			(1) Held By or For Account of Issuer Thereof	(2) Not Held By or For Account of Issuer Thereof				(1) Persons Included in Consolidated Statements	(2) Others	
Mortgage Loans:										
11. Schlader—first mortgage payable maturing February 15, 1973. Payable in yearly installments of \$25,250 plus interest at the rate of 5% per annum	\$ 126,250	\$ 101,000	None	\$ 101,000	\$ 75,750	None	None	None	None	
Graham and Egleston—first mortgage payable maturing October 16, 1970. Payable in yearly installments of \$18,687 plus interest at the rate of 5% per annum	56,060	37,373	None	37,373	18,687	None	None	None	None	
Graham and Egleston—first mortgage payable maturing July 1, 1972. Payable in yearly installments of \$100,000. Interest at the rate of 5½% per annum is payable semi-annually	300,000	278,621	None	278,621	200,000	None	None	None	None	
Graham and Egleston—first mortgage payable maturing September 12, 1971. Payable in yearly installments of \$34,077 plus interest at the rate of 5% per annum	102,230	102,230	None	102,230	68,153	None	None	None	None	
Mable F. Yorman—first mortgage payable maturing September 4, 1973. Payable in yearly installments of \$20,000 plus interest at the rate of 5% per annum	100,000	100,000	None	100,000	80,000	None	None	None	None	
Clay Land Corporation—first mortgage payable maturing February 3, 1974. Payable in yearly installments of \$20,000 plus interest at the rate of 5% per annum	100,000	100,000	None	100,000	80,000	None	None	None	None	
Ruth Chase—first mortgage payable maturing April 1, 1973. Payable in yearly installments of \$24,000 plus interest at the rate of 5% per annum	120,000	96,000	None	96,000	72,000	None	None	None	None	
Janette A. Wilson—first mortgage payable maturing September 12, 1971. Payable in yearly installments of \$30,667 plus interest at the rate of 6% per annum	92,000	92,000	None	92,000	61,333	None	None	None	None	
Total mortgage loans	\$ 996,540	\$ 907,224	None	\$ 907,224	\$ 655,923	None	None	None	None	
TOTAL—STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED:	\$4,881,743	\$4,735,288	None	\$4,735,288	\$3,423,952	None	None	None	None	

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SCHEDULE IX

**STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED**

**CAPITAL SHARES
July 31, 1969**

Column A	Column B	Column C	Column D		Column E		Column F		Column G	Column H
Name of Issuer and Title of Issue	Number of Shares Authorized by Charter	Number of Shares Issued and not Retired or Cancelled	Number of Shares Included in Column C Which are		Shares Outstanding as Shown on or Included in Related Balance Sheet Under Caption "Capital Stock"		Number of Shares Held by Affiliates for Which Statements are Filed Herewith		Number of Shares Reserved for Officers and Employees	Number of Shares Reserved for Options, Warrants, Conversions and Other Rights
			(1)	(2)	(1)	(2)	(1)	(2)		
			Held By or For Account of Issuer Thereof	Not Held By or For Account of Issuer Thereof	Number	Amount at which Carried	Persons Included in Consolidated Statement	Other		
Stirling Homex Corporation \$.01 par value Common Stock	2,500,000	2,092,100	None	2,092,100	2,092,100	\$20,921	None	None	100,000	100,000

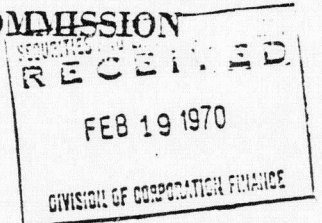
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Registration No. 2-34949

42551

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549



AMENDMENT NO. 2

TO

FORM S-1

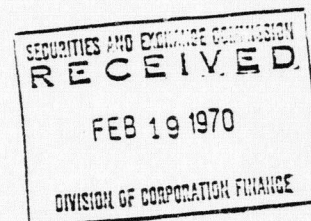
REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

STIRLING HOMEX CORPORATION

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PROSPECTUS

1,175,000 Shares

Common Stock

Of the shares offered hereby, 400,000 are being issued and sold by Stirling Homex Corporation (the "Company") and 775,000 are being sold by the stockholders named under "Principal and Selling Stockholders". The Company will not receive any of the proceeds of the sale of the shares being sold by the Selling Stockholders. Prior to this offering there has been no public market for the Common Stock. The price at which the Common Stock is being offered was determined by negotiation among the Company, the Selling Stockholders and the Representative of the Underwriters.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Initial Public Offering Price	Underwriting Discount (1)	Proceeds to Company (2)	Proceeds to Selling Stockholders (2)
Per Share	\$16.50	\$1.24	\$15.26	\$15.26
Total	\$19,387,500	\$1,457,000	\$6,104,000	\$11,826,500

(1) On April 14, 1969 R. W. Pressprich & Co. Incorporated purchased, subject to certain restrictions, 68,400 shares of Common Stock of the Company for \$68,400. See "Underwriting".

(2) Before deducting expenses estimated at \$40,000 (\$10 per share) payable by the Company and \$51,000 (\$0.66 per share) payable by the Selling Stockholders.

This Offering Involves:

- (a) Special risks concerning the Company. See "Speculative Factors", page 3.
- (b) Immediate substantial dilution to the book value of the stock from the Initial Public Offering Price. See "Dilution", page 4.
- (c) Significant additional underwriting compensation, consisting of the sale to R. W. Pressprich & Co. Incorporated, Representative of the Underwriters, of 400 shares for \$68,400 and 25,000 shares at the Initial Public Offering Price, and other rights, including indemnification and rights to registration. See "Underwriting", page 15.

**R.W. Pressprich
& Co. INCORPORATED**

The date of this Prospectus is February 19, 1970

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The Underwriters have agreed to make available 117,500 shares of Common Stock offered hereby for sale to certain persons designated by the Company. Such persons will be required to purchase such shares promptly upon the commencement of this offering and any shares not so purchased will be re-offered to the public at the public offering price.

The shares are offered subject to prior sale, withdrawal, or cancellation of the offer without notice and when, as and if delivered to and accepted by the Underwriters, and subject to approval of certain legal matters by Messrs. Winthrop, Stimson, Putnam & Roberts, counsel for the Underwriters, and by Messrs. Shea Gallop Climenko & Gould, counsel for the Company and the Selling Stockholders, and to certain further conditions. The Underwriters reserve the right to reject any order in whole or in part.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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Until May 20, 1970 (ninety days after the date of this Prospectus) all dealers effecting transactions in the registered securities, whether or not participating in this distribution, may be required to deliver a Prospectus. This is in addition to the obligations of dealers to deliver a Prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

No dealer, salesman or any other person has been authorized by the Company or the Underwriters to give any information or make any representations other than those contained in this Prospectus, and if given or made, such information or representations must not be relied upon. This Prospectus does not constitute an offer to sell nor the solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. Except where otherwise indicated, this Prospectus speaks as of its date. Neither the delivery hereof nor any sale made hereunder shall create an implication that the affairs of the Company have continued without change since such date.

THE COMPANY

Stirling Homex Corporation (the "Company") is engaged in the assembly-line manufacture and sale of modular housing. The Company's housing units are manufactured with conventional materials and consist of three or four modules, each of which is a room or multi-room section of a house. The modules are equipped in the manufacturing process with all necessary plumbing and heating fixtures, electrical wiring, appliances and floor covering. When the foundation and preliminary site work are completed, the modules for a housing unit are put in place, joined together and ready for occupancy in approximately three hours.

Generally, upon receipt of a commitment from a customer, subsidiaries of the Company purchase the land, prepare the sites, lay the foundations, arrange utility connections, install and connect the modules, and landscape the housing site, thereby providing a total service to the customer in delivering turnkey housing. To date substantially all the housing units produced by the Company have been two-story dwellings connected to form multi-family housing. From the commencement of operations in August 1968 to December 31, 1969, the Company produced 1,136 modular dwelling units. The Company's plants and executive offices are in Avon, New York, near Rochester.

The Company was incorporated in Delaware in July 1968 to acquire the land, buildings and manufacturing facilities in Avon which it currently uses, a patent application, processes and know-how relating to the assembly-line manufacture of housing, and the outstanding stock of three corporations in the land and housing development business. Such stock and assets were acquired from David Stirling, Jr., William G. Stirling, David Stirling, Sr. and Harper Sibley, Jr., the organizers of the Company, or from corporations controlled by them, in exchange for stock of the Company. See "Organization and Certain Transactions." Prior to this offering, officers and directors as a group owned beneficially 78% of the Company's outstanding stock, and after the sale of the shares offered hereby will own 66% and will maintain effective working control of the Company's policies and operations.

Speculative Factors

In connection with the shares offered hereby, investors should consider among others the following factors:

The Company commenced operations in August 1968 and is engaged in a new business—the mass production of modular dwelling units. Other companies, with financial resources far greater than those of the Company, are actively engaged in research on the production of homes using mass production techniques. No assurances can be given as to the future of the industry or the Company's position in it.

In the Company's fiscal year ended July 31, 1969, approximately 61% of its sales were to customers controlled by the principal stockholders of the Company and approximately 32% to local housing authorities. See "Organization and Certain Transactions". For the five month period ended December 31, 1969 approximately 94% of sales were to local housing authorities. Substantially all of the Company's backlog represents orders from local housing authorities for federally financed housing projects. The Company can give no assurance as to the future availability of federal financial assistance or as to the success of its future sales efforts with local housing agencies. See "Business—Federally Financed Housing" and "Business—Sales and Backlog".

An important factor in the Company's continued success is acceptance by organized labor of the concept of assembly-line manufactured housing. The Company has entered into an agreement with the national office of the United Brotherhood of Carpenters and Joiners of America, the largest building trades union, under which the Union has agreed to furnish competent labor anywhere in the United States to erect the Company's modular housing. The Company can give no assurance, however, that the Company and its subsidiaries will be free of labor problems in the future. See "Business—Labor Relations".

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The Company has not paid any dividends on its common stock and has covenanted, under a promissory note due March 15, 1971, not to pay any cash dividends while such note is outstanding. It anticipates reinvesting any earnings in its business and does not expect to pay any cash dividends on its Common Stock in the near future.

Dilution

The net tangible book value as of December 31, 1969 of the shares outstanding on that date (giving effect to the four-for-one split approved by the stockholders on November 6, 1969) was \$.41 per share. As adjusted to reflect the sale of the shares offered hereby, the net tangible book value as of that date would be approximately \$1.12 per share, resulting in an increase of approximately \$.71 per share in such book value attributable to the cash payments made by the purchasers of the shares being offered by the Company hereby, and an immediate dilution to the public investors of approximately \$13.38 per share.

USE OF PROCEEDS

The net proceeds to be received by the Company from the sale of the shares offered hereby, estimated to be \$6,064,000, will be added to the general funds of the Company. The Company intends to establish additional plant locations. It has engaged in a number of discussions concerning the establishment of plants, of a size and capacity comparable to its Avon, New York manufacturing plant, in eastern Ohio and New England, but has not entered into any commitments to do so. It is anticipated that each of such plants, together with the necessary machinery and equipment, would be leased to the Company and, therefore, establishing them would not require substantial immediate cash outlays by the Company. Whether or not such discussions are successful, the Company intends to establish plants in these or other locations and, except as noted above, may require financing in connection therewith, the availability of which cannot be assured. The Company intends to use substantially all of the net proceeds for inventory and receivables in connection with the operations of its proposed new facilities and Avon plant. Until the proceeds of this offering are needed for the above purposes, they may be used for the temporary reduction of short term bank loans or invested in high grade debt securities.

CAPITALIZATION

The following table sets forth the capitalization of the Company as of December 31, 1969 and as adjusted to give effect to the sale of the shares of Common Stock offered hereby by the Company.

<u>Title of Class</u>	<u>Outstanding</u>	<u>As Adjusted</u>
Debt:		
Mortgages payable, 3% to 6%, due to 1975 (including the current portion) (1)	\$ 775,247	\$ 775,247
Notes payable, 8½% due 1970(1)	\$4,500,000	\$4,500,000
Note payable, 9% due 1971(1)	\$3,700,000	\$3,700,000
Sundry Indebtedness (2)	\$ 105,470	\$ 105,470
Capital Stock(3):		
Common Stock, par value \$.01 per share; authorized 15,000,000 shares	8,472,400 shs.	8,897,400 shs.(4)
Preferred Stock, par value \$1.00; authorized 500,000 shares ...	none	none

(1) See Note 8 of Notes to Financial Statements.

(2) Consists of installment contracts and lease-purchase agreements expiring from April 5, 1970 to April 1, 1973.

(3) Gives effect to an increase in the number of authorized shares of Common Stock to 15,000,000 shares, a four-for-one split of the outstanding shares of Common stock and the authorization of 500,000 shares of a series preferred stock. Unless the context indicates otherwise the statements in this Prospectus give effect to such four-for-one split.

(4) Does not include 400,000 shares reserved for issuance upon the exercise of stock options to be granted pursuant to the Stock Option Plan of the Company (See "Stock Option Plan") but does include the 25,000 shares to be purchased by R. W. Pressprich & Co. Incorporated. See "Underwriting".

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**STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED**

STATEMENT OF INCOME

The following Statement of Income of the Company and the Company and its Subsidiaries for the year ended July 31, 1969 has been examined by Harris, Kerr, Forster & Company, independent certified public accountants, whose opinion thereon appears elsewhere in this Prospectus. The Statements of Income for the five months periods ended December 31, 1969 and December 31, 1968, not examined by independent certified public accountants, reflect in the opinion of the Company, all adjustments (consisting of only normal recurring accruals) the Company considered necessary for the fair presentation of the results of operations for such periods. These statements should be read in conjunction with the Financial Statements and related Notes appearing elsewhere in this Prospectus. The numerical Note references below are to the Notes to Financial Statements.

	Year Ended July 31, 1969		Five Months Ended December 31, 1968		Five Months Ended December 31, 1969	
	Company	Consolidated	(Unaudited) Company	(Unaudited) Consolidated	(Unaudited) Company	(Unaudited) Consolidated
Sales:						
Sales-Trade	\$ 215,200	\$3,951,725	\$ 215,200	\$ 288,396	\$ —	\$7,192,140
Sales to Affiliated Companies (Note 2)	595,922	6,146,338	303,391	1,432,335	—	459,941
Sales to Wholly-Owned Subsidiaries (eliminated in consolidation)	5,115,150	—	1,166,472	—	5,637,640	—
Total	5,925,272	10,098,064	1,685,063	1,740,931	5,637,640	7,652,081
Cost of sales (Including depreciation—Note 14)	3,543,128	7,007,556	1,363,671	1,325,545	2,393,969	4,572,391
Gross profit	2,381,144	3,084,508	321,392	415,386	2,743,671	3,079,190
Administrative and selling expenses	576,567	576,567	255,107	156,823	943,717	924,863
Interest expenses	104,697	99,352	20,276	20,276	217,767	217,767
Total expenses	781,264	775,919	275,383	177,099	1,161,484	1,142,630
Income before income taxes	1,599,880	2,308,589	45,009	238,287	1,582,187	1,936,560
Provision for income taxes:						
State	111,992	162,500	3,150	16,680	110,753	135,559
Federal:						
Current portion (Note 10)	574,110	920,800	22,102	117,008	748,417	922,429
Deferred portion (Note 9)	185,706	187,021	—	—	28,500	28,500
Total	871,808	1,270,321	25,252	133,688	887,670	1,086,488
Net income (Notes A and 13)	\$ 728,072	\$1,038,268	\$ 19,757	\$ 104,599	\$ 694,517	\$ 850,072
Net income per share of Common Stock (Note B)		\$.13		\$.01		\$.10

NOTE A. Two sales of undeveloped land acquired at the time of organization of the Company accounted for approximately 18% of the Company's net income during its first fiscal year. The Company does not anticipate that land sales will be a significant part of its business in the future.

NOTE B. Net income per share of Common Stock is based upon the average number of shares outstanding during the periods after giving retroactive effect to the four-for-one split. See Note 11.

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BUSINESS

The Company is engaged in the assembly-line manufacture and sale of modular housing units. Generally, upon receipt of a customer's commitment, subsidiaries of the Company purchase the land upon which the housing modules are to be installed, prepare the sites, install and connect the modules and convey to the customer both the land and improvements thereon, thus providing a total service by delivering turnkey housing. Substantially all of the dwelling units sold by the Company have been purchased for rental rather than resale.

The Modular Dwelling Unit

The dwelling units manufactured by the Company consist of three or four modules, varying with the number of bedrooms. Modules are approximately 12 feet in width by 24 feet in length by 9 feet in height and are stacked and joined to form a two-story dwelling unit. All modules, upon leaving the assembly line, contain and have affixed or installed (depending upon location in the dwelling unit) wall coverings, floor coverings, wood trim, drapery fixtures, cabinetry, plumbing fixtures, all necessary electrical systems and fixtures, welded insulating glass windows and, if ordered, a stove, refrigerator, and air conditioning system. The stairs are in place within the module. The exterior walls are insulated, sheathed, and finished except in those areas where brick is used (which is applied at the site in the conventional manner).

The Company offers two, three and four bedroom models and a choice of several exterior treatments. In addition it will adjust its production line to meet the specifications of a substantial order. Many segments of the Company's modules are manufactured so as to be useable in each of the models of housing units the Company offers. When the modules have been joined and utilities connected at the building site, nothing further is required to prepare the dwelling units for occupancy.

The Company has designed a concrete and steel frame, stack-on module which is suitable for high-rise buildings and has commitments to build two high-rise buildings using these modules.

Assembly Line Manufacture of Modules

The housing modules are manufactured at the Company's Avon plant on a center assembly-line process. At the first work station the floor assembly is built. At succeeding work stations, wall systems, ceiling systems, roof systems, kitchen assemblies, electrical systems and fixtures, plumbing systems and fixtures, heating systems and fixtures, insulation, doors and trim, ceramic tile, resilient flooring or carpeting and, when ordered, air conditioning systems, stoves and refrigerators are added in sequence. As the modules progress down the assembly line, constituent parts are cut to size, shaped and assembled on either side and overhead of the assembly line and are installed in the module. The module is then wrapped and weatherproofed in heavy polyethylene film for shipment by tractor-trailer to its ultimate destination. Generally about 20 modules can be completed in a day in the Company's present facilities.

The Company has patent applications pending with respect to its assembly line method of assembling homes, its concrete and steel frame module and its system for erecting a high-rise building. The Company can give no assurance that such applications will be successful. However, the Company believes that its competitive position has been dependent upon its own research activities, management skills and production capabilities, rather than upon patent protection.

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Use of Conventional Materials

The Company uses conventional building materials. It utilizes gas heat, double party wall and separate ceiling/floor systems, copper water piping, adhesives and nail fastenings and vinyl interior wall coverings. Many components, such as fixtures, appliances, hardware and door and window frames, are purchased ready for installation from independent suppliers. The Company does not have purchase contracts with its suppliers; however it believes its raw materials are readily available from alternative sources.

The Company has established building specifications which it believes meet the requirements of most local building codes. Prior to commencement of a project, the specific local code is studied to insure that the product will conform. In this connection, representatives of the New York Board of Fire Underwriters inspect the wiring on the assembly line and render their approvals there.

Quality Standards

The Company performs quality control inspections throughout the manufacturing process. The Company believes its manufacturing process, which eliminates exposure of the materials to the elements during manufacture, enables it to process and install materials in prime condition and to maintain greater quality control and uniformity in its housing than exists in the conventional housing industry. The Company warrants the materials and workmanship of its modules and site improvements for one year from the date of purchase by a customer.

A major life insurance company has granted mortgages in the aggregate amount of \$5,430,000 on two projects utilizing the Company's modular housing. These two projects were privately developed by companies in which principals of the Company have an interest. The Company has no obligation under the mortgages. See "Organization and Certain Transactions."

Federally Financed Housing

The Company believes that its assembly-line produced modular housing is particularly suited to assist in meeting the aims of the federal low rent and moderate income housing programs by permitting the erection of large numbers of approved units in much less time than is possible with conventional construction methods. The Company has directed and intends to direct a significant portion of its sales efforts toward local housing agencies qualified for various forms of financial assistance from the Department of Housing and Urban Development ("HUD"). In order to raise funds to pay the Company, upon payment becoming due, the local housing authority borrows funds for a period of 60 days to one year, either in the form of a direct loan from HUD, or more commonly, by issuing tax exempt notes which are sold in the private money market and are secured by the full faith and credit of the United States Government.

Thereafter, HUD, as the agent for the local housing authority, sells bonds of the local housing authority to pay off the short term indebtedness of the authority and in effect to provide long term financing for the project. Local housing authority bonds are normally sold with maturities of up to forty years. The bonds are tax exempt and, like the notes mentioned above, are secured by the full faith and credit of the United States Government.

In recent months however, rising interest rates in the capital markets coupled with statutory interest rate ceilings imposed by some States, have delayed the sale of long term local housing authority bonds. This development has not materially affected the amount of funds available to pay the Company since short term funds remain available through HUD to carry the project until permanent financing can be arranged. The Company can give no assurance of the availability in the future of such financial assistance from HUD or that its sales efforts with local housing agencies will meet with continued success.

Models currently in production have been sold to, and additional orders have been received from, several local housing authorities which are funded by HUD.

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Site Work

Both the on-site development work required prior to receiving the modules and the installation of the modules are performed in a conventional manner by a subsidiary, utilizing independent contractors and local union construction personnel and tradesmen under the supervision of the subsidiary's employees. Primary on-site development work consists of preparing the foundations, making the necessary utility connections, and installing sewers. Modules are trucked to the site, lifted by crane onto the foundations and joined to each other and the foundation. The electrical, heating and plumbing systems between the modules are connected, and pre-packaged trim is applied where the modules are joined. Gutters and downspouts are then installed and brick is applied to the first floor exterior when required by the customer. Finally, the appropriate areas of the site are landscaped and paved.

Time Factors

Since on-site construction requirements are reduced to a minimum, reliance upon favorable weather and other local conditions is minimized. Accordingly, the Company's modular housing system permits the complete installation of a housing unit, from excavation of the foundation to occupancy, in a relatively small fraction of the time required by conventional construction and eliminates to a large extent clean-up after completion of the project. The reduced construction time lessens the amount of interest costs incurred during development and shortens the interval between the commencement of a project and occupancy and the production of income. Where relocation of families is required as may be the case in low income housing, the relocation period is appreciably shortened. Although the Company has experienced only minor delays in its site work, it can give no assurance that it will not encounter delays in the future.

Transportation of Units

The Company owns 90 flatbed trailers for use in transporting the modules to customers. The trailers are loaded by the Company and delivered at the Company's plant to independent carriers who furnish the tractors and drivers which transport the modules to their destination. The Company's trailers are capable of transporting 180 modules, representing approximately nine days' production which the Company considers adequate for its present rate of production. Because of the costs involved in transporting modules from a plant, the Company believes that it is not economically feasible to sell to projects more than 400 miles from a Company plant. The continued growth of the Company's market, therefore, is dependent to a significant extent upon its ability to establish additional manufacturing facilities in other locations. Federal and state regulations limit the dimensions and weight of loads permitted on highways. Such regulations have not had a material adverse effect on the operations of the Company.

Sales and Backlog

Through July 31, 1969 approximately 32% of consolidated sales were made to municipal housing authorities and a nonprofit corporation, approximately 7% of consolidated sales to private developers and approximately 61% of consolidated sales to development companies in which the principal stockholders had an interest. See "Organization and Certain Transactions". During the five months ended December 31, 1969 approximately 94% of consolidated sales were to municipal housing authorities. From inception through December 31, 1969, the Company produced 4,283 modules comprising 1,136 dwellings.

In all projects, the Company transfers the land as well as the modules to the ultimate purchaser. In substantially all sales to private developers and development companies in which the principal stockholders had an interest, the land on which the housing modules were installed was acquired by the Company at the time of its organization. In sales to municipal housing authorities, the land on which the housing modules were installed was owned or approved by the housing authority and acquired by the Company shortly prior to the commencement of site work.

Two sales of undeveloped land acquired at the time of organization of the Company accounted for approximately 18% of the Company's net income during its first fiscal year. The larger parcel was purchased by a developer who subsequently entered into an agreement with the Company to purchase modular housing for installation on such land. Land sales to local housing authorities are made substantially at cost and the Company does not anticipate that land sales will be a significant part of its business in the future.

As of December 31, 1969, the Company or its subsidiaries had orders from local housing authorities in the form of contracts or letters of intent in the amount of approximately \$30,000,000. Of these orders, approximately \$13,000,000 are scheduled for completion during the balance of the fiscal year ending July 31, 1970. Some of the letters of intent contain a provision that the actual price will be based upon an appraisal of market value at the time of delivery; the remainder provide that dwelling prices shall be the published prices of the Company then in effect. The above figures are based upon the Company's published prices. The Company believes the use of letters of intent is a common practice in the governmental housing industry. Pursuant to this practice, the Company undertakes the manufacture of modules and commencement of projects before formal contracts are executed but only after letters of intent have been executed. Such letters indicate the governmental agency's intention to purchase the housing project provided it meets certain specifications, pursuant to the acquisition or turnkey procedure of the appropriate governmental agency.

The Company employs a director of sales engineering and one assistant to the director. Substantially all of the Company's sales efforts involve direct contacts with local housing authorities. The Company does not advertise in the mass media.

Dwelling units vary in price to the Company's customers from \$19,100 for a two bedroom unit to \$22,700 for a four bedroom unit, inclusive of average site work costs and exclusive of land costs.

Labor Relations

The Company and its subsidiaries have about 425 employees (exclusive of site labor), of whom about 100 are executive, administrative or clerical with the balance engaged in production. In September 1968 the production employees were organized in an industrial unit by the United Brotherhood of Carpenters and Joiners of America, the largest of the building trades unions (representing approximately 30% of all building trades union employees). The Company thereafter entered into a three-year collective bargaining agreement with the local union providing an industrial contract covering all production employees.

In June 1969 the Company entered into an international agreement with the national office of the United Brotherhood of Carpenters and Joiners of America. Under this contract the Union has agreed to furnish competent journeymen on a non-discriminatory basis to install Company modules anywhere within the jurisdiction of the Union. In return the Company has agreed to recognize the jurisdictional claims of the Union and not to subcontract any work within the Union's jurisdiction which is to be performed at the job site except to a contractor who is a party to an agreement with the Union or who agrees in writing to be bound by the terms of the aforementioned agreement. As a result, the modules are manufactured and dwellings are installed completely by building trades union labor. The Company has had no strikes or interferences with its production or on-site erection of its dwelling units.

Freedom from work interruptions as a result of labor problems is important to the continued success of the Company's business. Although the Company believes that the above-mentioned agreements should contribute to the continuation of its present satisfactory labor relations, it can give no assurance that the

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Company and its subsidiaries will be free of labor problems in the future. The Company understands that nationwide bargaining will occur in 1970 involving the International Brotherhood of Teamsters, and there is no assurance that the transportation of the Company's modules by its independent carriers will not be adversely affected.

The Company and the Union have agreed to cooperate in a program to provide free training and job opportunities to unemployed unskilled labor. The Company and the Union plan to establish a training program at the Company's Avon plants to implement this program. The United States Department of Labor has recently awarded the Company a manpower training grant of \$275,000 to begin recruitment, in cooperation with the Union, of unemployed unskilled workers in the Rochester area.

Legal Proceedings

The Company has been notified of a claim by Homasote Company alleging that the Company is wrongfully using the word "Homex" in its name on the grounds that the use constitutes a violation of the registered trade name "Homex", which such corporation holds on pre-molded wood-fiber strips for use as expansion joint fillers in concrete and masonry construction. The Company has denied the claim and, on August 11, 1969, brought an action against the corporation in the United States District Court, Western District of New York, for a declaratory judgment that it may continue to use the word "Homex". Homasote has denied the jurisdiction of the court, and has conditionally counterclaimed, alleging that there has been a trademark infringement. On August 13, 1969, in the same court, Homasote brought an action to enjoin the use by the Company of the word "Homex", for an accounting of the Company's profits and for unspecified damages incurred by reason of the alleged violation. In the opinion of the Company and its special counsel, Moore and Hall, the claims by Homasote are without merit.

Competition

The Company's principal customers are local housing authorities. See "Business—Sales and Backlog." The usual practice for a local housing authority is to entertain competing proposals. The major factors which affect a local housing authority's decision include price, design and quality of product, responsibility of bidder and speed with which a project may be completed.

The Company and its subsidiaries must compete with numerous conventional builders, many of which possess much greater resources than the Company and its subsidiaries. In addition, conventional methods have a greater acceptance with many developers and housing authorities. The Company believes, however, that its manufactured housing is competitive in price and quality with conventional housing. There are other companies, some of which possess much greater resources than the Company and its subsidiaries, who may use a manufacturing assembly-line technique similar to that used by the Company or who are actively engaged in research into such technique.

PROPERTIES

The Company's principal office and factory are located on 29 acres of land in Avon, New York and were erected in 1967. They consist of a brick and steel office building, an adjoining concrete block factory and a storage building having an aggregate area of 66,000 square feet. These facilities are presently being expanded to provide approximately 9,000 square feet of additional office space.

On August 18, 1969, the Company purchased a one-story steel and masonry building containing approximately 48,000 square feet and five acres of land in Avon, close to its present location. 4,700 square feet are being used for office facilities. Upon completion of alterations, 5,000 square feet will be used for a training center and the balance for manufacturing.

A subsidiary of the Company owns approximately 442 acres of unimproved land in Clay, New York and smaller parcels in Akron, Ohio as land reserves for possible future development.

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MANAGEMENT

The directors and officers of the Company are:

<u>Name</u>	<u>Office</u>
David Stirling, Jr.*	Chairman of the Board of Directors and Chief Executive Officer
William G. Stirling*	President and Director
Harold M. Yanowitch*	Executive Vice President, General Counsel and Director
Richard E. Karkow	Executive Vice President, Treasurer and Director
David Stirling, Sr.	Vice President and Director
Frank Csapo	Vice President—Manufacturing
Arthur E. Rosfeld	Vice President—Program Planning
E. A. Bartz	Vice President—Secretary
Edwin J. Schulz	Controller
Harper Sibley, Jr.*	Director
Theodore W. Kheel	Director
John W. Castellucci	Director

* Member of the Executive Committee.

Prior to organizing the Company in July 1968, David Stirling, Jr., William G. Stirling, David Stirling, Sr. and Frank Csapo had been officers of Stirling Bros., Inc., a multifamily housing development and operating company, since its organization in 1962.

Harold M. Yanowitch had been engaged in the practice of law for more than 20 years prior to joining the Company in June 1969. Prior to joining the Company, Mr. Yanowitch was a senior partner in the law firm of Yanowitch, Frank & Garrity.

Richard E. Karkow joined the Company in August 1969, after having been employed by The Kroger Co., a retail food and drug chain. Mr. Karkow was Treasurer of The Kroger Co. for three years prior to becoming Vice President and Treasurer in 1966.

Arthur E. Rosfeld joined the Company in September 1969, having been employed as Acting Deputy Assistant Secretary for the Housing Assistance Administration of HUD, which position he had assumed in August 1968. From May 1967 to September 1969 Mr. Rosfeld also served as the Director of the Operational Services Division of the Regional Housing Administration of HUD and from September 1966 with the Assistant Secretary for Renewal and Housing Assistance. During the two years prior thereto, Mr. Rosfeld worked as a private consultant on urban affairs.

E. A. Bartz was Controller of Stirling Bros., Inc. from 1966 to August 1968 when he joined the Company as Treasurer. Prior to 1966 Mr. Bartz was Controller of a real estate investment company for twelve years.

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Edwin J. Schulz joined the Company in October 1968, after leaving his position as senior systems analyst of Armstrong Cork Co., Inc., a manufacturer of building products where he had been employed since prior to 1964.

Harper Sibley, Jr. was President of Sibley Corporation, a mortgage placement firm until March of this year, when he became Chairman of the Board of Directors. He was President of Dietrich-Sibley Agency, Inc., an insurance broker until 1967, when he became Chairman of its Board of Directors. Mr. Sibley is also a director of Western Union Telegraph Company, Central Trust Company of Rochester, New York and the Republic National Bank of New York.

Since prior to 1964 John W. Castellucci has been employed by the National Association of Blue Shield Plans, a trade association of medical insurance companies. He has been President since 1967 and served as Executive Vice President prior thereto.

Since 1949, Theodore W. Kheel has been a member of the law firm of Bartle, Fowler, Stokes & Kheel and has served as a mediator and arbitrator of labor disputes for approximately 30 years. Mr. Kheel is also a director of Western Union Telegraph Company, Athlone Industries, Inc., Combustion Equipment Associates, Inc. and the Republic National Bank of New York, of which he is also Chairman of the Board of Directors.

The following table sets forth information concerning the remuneration received during the fiscal year ended July 31, 1969 from the Company and its subsidiaries by each director and officer of the Company whose aggregate direct remuneration exceeded \$30,000 and by all directors and officers of the Company as a group:

<u>Name of Individual or Identity of Group</u>	<u>Capacities in Which Remuneration Was Received</u>	<u>Aggregate Remuneration(1)</u>
David Stirling, Jr.	President; Chairman of the Board and Chief Executive Officer	\$ 52,100
William G. Stirling	Executive Vice President, and Secretary; President	52,100
All directors and officers as a group (13 persons)		201,592(2)

(1) The Company has entered into five year employment contracts, effective September 1, 1969, with David Stirling Jr., William G. Stirling, Harold M. Yanowitch and Richard E. Karkow under which such persons will receive annual basic compensation of \$75,000, \$75,000, \$70,000 and \$65,000 respectively. The Company intends to adopt a profit sharing or pension plan during the current fiscal year.

(2) Does not include legal fees of \$38,490 paid to Yanowitch, Frank & Garnity, of which firm Harold M. Yanowitch, Executive Vice President and General Counsel and a Director, was a member until June 1, 1969.

ORGANIZATION AND CERTAIN TRANSACTIONS

At the time of the Company's organization Messrs. David Stirling, Jr., William G. Stirling, David Stirling, Sr. and Harper Sibley, Jr. received, directly or through corporations which they controlled, an aggregate of 6,400,000 shares of Common Stock of the Company in return for the land, building and

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manufacturing facilities in Avon, a patent application, processes and know-how relating to the assembly-line manufacture of housing, \$6,000 in cash and the outstanding stock of three corporations in the land and housing development business. The stock of the three corporations and the physical assets acquired had a net aggregate book value of \$111,627 as determined by the accountants for the Company. The land, building and manufacturing facilities had been purchased or constructed by the founders of the Company at a total cost to them of approximately \$400,000, subject to liabilities of approximately \$300,000, and they had paid approximately \$11,000 for the stock of the three corporations.

In June 1969 the Company issued and sold to Harold M. Yanowitch 100,000 shares and to Theodore W. Kheel and designees 200,000 shares of its Common Stock at \$1.00 per share, and on August 11, 1969 issued and sold to Richard E. Karkow 100,000 shares at \$1.00 per share.

The Company has used the services of Dietrich-Sibley Agency, Inc., an insurance broker, in the purchase of its insurance policies and has paid \$78,573 in premiums to such agency. Mr. Sibley is an officer, director and principal stockholder of such corporation which received commissions on such insurance purchases at the regularly established rates. Assuming that the present policies remain in effect and are renewed at the appropriate times, Dietrich-Sibley Agency, Inc. will receive renewal commissions on such policies in the future.

In 1969 a subsidiary of the Company sold land to, and developed a modular housing complex in Clay, New York, for a limited partnership, of which Messrs. David Stirling, Jr. and William G. Stirling are limited partners, holding in the aggregate one-sixth of the partnership interest. A corporation controlled by Harper Sibley, Jr. made a construction loan of \$2,900,000 in connection with such complex, which loan has been repaid. The project has been completed and a total of approximately \$3,766,000 has been paid for the modules and services provided.

In 1969 the Company and a subsidiary completed the final portion of construction work on a modular housing development in Henrietta, New York, known as Fairways, Phase I, for a partnership, of which Messrs. David Stirling, Sr., David Stirling, Jr., William G. Stirling and Harper Sibley, Jr. were partners. Approximately \$919,000 was received for such work.

In 1969 the Company and a subsidiary completed performance of a contract for the sale and erection of modules which had been entered into with a corporation all of the stock of which is owned by David Stirling, Jr., William G. Stirling and Harold M. Yanowitch. The work was done at a site in Avon, New York for a price of approximately \$443,000.

Under a contract entered into in 1967 with a corporation, all of the stock of which is held by a corporation controlled by Messrs. David Stirling, Sr., David Stirling, Jr., William G. Stirling and Harper Sibley, Jr., a subsidiary of the Company has done the on-site construction work at a mobile home park in Clay, New York, owned by such corporation. The subsidiary has received approximately \$1,394,000 for such work.

In March 1969 a subsidiary of the Company purchased land from a corporation owned by David Stirling, Jr., William G. Stirling, David Stirling, Sr. and Harper Sibley, Jr. for \$123,500 and sold it to such corporation in July 1969 for \$123,862 (representing initial costs and improvements).

The Company considers the amounts received and to be received by it and its subsidiaries in the above-described transactions in line with amounts customarily charged for similar products and services.

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STOCK OPTION PLAN

The Company has a qualified Stock Option Plan under which a total of 400,000 shares of Common Stock are reserved for the grant of options (subject to adjustment for stock splits, stock dividends or any similar change affecting the Common Stock). The options are intended to be "qualified stock options" within the meaning of Section 422 of the Internal Revenue Code. The option price in each instance is 100% of the fair market value of the Common Stock on the date the option is granted.

As of January 31, 1970 options to purchase an aggregate of 273,575 shares of Common Stock at prices ranging from \$3.00 to \$12.00 per share were held by 64 employees, including four officers who held options to purchase 76,000 shares. The exercise price of the options granted prior to October 4, 1969 is \$3.00 per share. Options granted commencing November, 1969 have an exercise price of \$12.00 per share. All of such options expire five years from date of grant.

PRINCIPAL AND SELLING STOCKHOLDERS

Set forth below is certain information as of September 1, 1969, with respect to the ownership of Common Stock of the Company by the Selling Stockholders (who include each holder of 10% or more of the outstanding Common Stock of the Company.)

Name	Amount of Common Stock Owned	Percent of Outstanding Common Stock	Amount of Common Stock to Be Sold	Amount of Common Stock to be Owned After Sale	Percent of Common Stock to be Owned After Sale
David Stirling, Jr.*	2,046,652	24.2%	110,100	1,936,552	21.8%
William G. Stirling*	2,050,648	24.2	112,000	1,938,648	21.3
Harper Sibley, Jr.*	1,370,400	16.2	437,977	932,423	10.5
David Stirling, Sr.*	456,100	5.4	24,300	431,800	4.9
Harry E. Figgie, Jr.	150,000	1.8	22,300	127,700	1.4
Saunders, Stiver & Co.	272,300	3.2	13,625	258,675	2.9
Frank Csapo	250,000	3.0	13,448	236,552	2.7
Dale S. Coenen	100,000	1.2	10,000	90,000	1.0
John O. Doerge	100,000	1.2	3,000	97,000	1.1
Carl Fazio	70,000	.8	3,000	67,000	.7
George R. Herzog	50,000	.6	2,300	47,700	.5
Gerald J. Murphy	50,000	.6	2,300	47,700	.5
A. A. Welsh & Co.	50,000	.6	2,300	47,700	.5
E. A. Bartz	40,000	.5	2,000	38,000	.4
R. W. McFall	40,000	.5	2,000	38,000	.4
Jess A. Bell	25,000	.3	1,250	23,750	.3
John Fazio	25,000	.3	1,250	23,750	.3
Carl J. Ericsson	20,000	.2	1,000	19,000	.2
James J. Gilligan	25,000	.3	1,000	24,000	.3
John M. Grayell	20,000	.2	1,000	19,000	.2
Edward Ginsberg	12,500	.1	600	11,900	.1
Michael D. Barnett	11,000	.1	350	10,650	.1
Robert E. Salisbury	5,000	.1	300	4,700	.1
Sherry V. Salisbury	5,000	.1	300	4,700	.1
Gordon Sharun	10,000	.1	300	9,700	.1
Claire Sandrock	8,000		400	7,600	
Philip Sandrock	8,000		400	7,600	
Antol Bachoffer	4,000		200	3,800	
Janet Thomas	4,000		200	3,800	
All directors and officers as a group (eleven per- sons)*	6,614,400	78.0	700,025	5,914,375	66.5

* Includes some shares owned beneficially by members of the family of such stockholders.

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David Stirling, Jr., William G. Stirling, Harper Sibley, Jr. and David Stirling, Sr. may be considered to be "parents" of the Company as that term is defined in the Securities Act of 1933.

DESCRIPTION OF CAPITAL STOCK

Holders of shares of Common Stock are entitled to receive such dividends as may be declared by the Board of Directors from funds legally available therefor and, upon liquidation, are entitled to share pro rata in any distribution to stockholders. The Company has issued a 9% promissory note, in the principal amount of \$3,700,000 maturing March 15, 1971, under which it has agreed not to pay any cash dividends or make any distribution of its assets to its stockholders while the note is outstanding. The holders of shares of Common Stock have one vote per share and do not have preemptive rights. Shares of Common Stock are not redeemable and do not have conversion rights and are not liable to assessment or further calls by the Company.

The Company intends to furnish stockholders with annual reports which will contain audited financial statements.

The Transfer Agent for the Common Stock of the Company is First National City Bank, New York.

Non-Cumulative Voting

The Common Stock has non-cumulative voting rights which means that the holders of more than 50% of the shares voting for the election of directors can elect all of the directors if they choose to do so and, in such event, the holders of the remaining shares will not be able to elect any directors.

Preferred Stock

Up to 500,000 shares of preferred stock, par value \$1.00 per share, may be issued from time to time in series with such series designation, number of shares in the series, relative rights, preferences and limitations as the Board of Directors of the Company may determine. Among the determinations to be made by the Board for each series would be (a) the dividend rate, and whether dividends would be cumulative; (b) conversion rights, if any, and the terms of any conversion; (c) the voting rights, if any, and (d) the rights of the Company to redeem such shares, and the terms of any redemption. Holders of preferred stock would not have preemptive rights.

No preferred stock has been issued and no plans have been made for any such issuance.

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UNDERWRITING

The Underwriters named below have agreed, subject to certain conditions, to purchase 400,000 shares from the Company and 775,000 shares from the Selling Stockholders. The respective percentages of the foregoing purchase obligations of each of the several Underwriters and the agreed number of shares of Common Stock to be purchased by each from the Company and the Selling Stockholders are set forth opposite the names of the several Underwriters below.

<u>Underwriter</u>	<u>Address</u>	<u>Percentage of Purchase Obligation</u>	<u>Number of Shares</u>
R. W. Pressprich & Co. Incorporated .	80 Pine Street New York, New York 10005	49.7 %	384,000
Allen & Company Incorporated	30 Broad Street New York, New York 10004	1.83	21,500
Bear, Stearns & Co.	1 Wall Street New York, New York 10005	1.83	21,500
Burnham and Company	60 Broad Street New York, New York 10004	1.83	21,500
Clark, Dodge & Co. Incorporated	140 Broadway New York, New York 10005	1.83	21,500
Goodbody & Co.	55 Broad Street New York, New York 10004	1.83	21,500
Hallgarten & Co.	44 Wall Street New York, New York 10005	1.83	21,500
W. E. Hutton & Co.	14 Wall Street New York, New York 10005	1.83	21,500
Ladenburg, Thalmann & Co.	25 Broad Street New York, New York 10004	1.83	21,500
Reynolds & Co.	120 Broadway New York, New York 10005	1.83	21,500
Shields & Company Incorporated	44 Wall Street New York, New York 10005	1.83	21,500
G. H. Walker & Co. Incorporated	45 Wall Street New York, New York 10005	1.83	21,500
Investors Bank Luxembourg S.A.	19 Rue Glesener Luxembourg	1.83	21,500
Cogan, Berlind, Weill & Levitt, Inc. ..	767 Fifth Avenue New York, New York 10022	1.32	15,500
Faulkner, Dawkins & Sullivan Securities Inc.	60 Broad Street New York, New York 10004	1.32	15,500
Laird Incorporated	280 Park Avenue New York, New York 10017	1.32	15,500
New York Securities Co.	One Whitehall Street New York, New York 10004	1.32	15,500
C. E. Unterberg, Towbin Co.	61 Broadway New York, New York 10006	1.32	15,500
Watling, Lerchen & Co.	30 Broad Street New York, New York 10004	1.32	15,500

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<u>Underwriter</u>	<u>Address</u>	<u>Percentage of Purchase Obligation</u>	<u>Number of Shares</u>
Faherty & Swartwood Inc.	70 Pine Street New York, New York 10005	1.32	15,500
Kordich, Victor & Neufeld	70 Wall Street New York, New York 10005	1.32	15,500
Bacon, Whipple & Co.	135 So. La Salle Street Chicago, Illinois 60603	.98	11,500
Dain, Kalman & Quail Incorporated ..	100 Dain Tower Minneapolis, Minnesota	.98	11,500
McDonald & Company	Union Commerce Building Cleveland, Ohio 44115	.98	11,500
Mitchum, Jones & Templeton Incorporated	510 S. Spring Street Los Angeles, California 90013	.98	11,500
Putnam, Coffin & Burr- Doolittle Division of Advest Co. ...	115 Broadway New York, New York 10006	.98	11,500
Rauscher Pierce & Co., Inc.	1200 Mercantile Dallas Building Dallas, Texas 75201	.98	11,500
Thomson & McKinnon Auchincloss Inc.	2 Broadway New York, New York 10004	.98	11,500
Wood, Walker & Co.	63 Wall Street New York, New York 10005	.98	11,500
Birr, Wilson & Co., Inc.	155 Sansome Street San Francisco, California 94104	.60	7,000
Bosworth, Sullivan & Company, Inc. ...	660 17th Street Denver, Colorado 80202	.60	7,000
B. C. Christopher & Company	4800 Main Street Kansas City, Missouri 64112	.60	7,000
Dreyfus & Co.	2 Broadway New York, New York 10004	.60	7,000
Greenshields & Co. Inc.	64 Wall Street New York, New York	.60	7,000
Hayden, Miller Div. of Stone & Webster Securities Corp.	Union Commerce Building Cleveland, Ohio 44115	.60	7,000
McCormick & Co., Incorporated	135 So. La Salle Street Chicago, Illinois 60603	.60	7,000
Newburger, Loeb & Co.	5 Hanover Square New York, New York 10004	.60	7,000
Newhard, Cook & Co.	400 Olive Street St. Louis, Missouri 63102	.60	7,000
Suez American Corporation	55 Broad Street New York, New York 10004	.60	7,000
Underwood, Neuhaus & Co. Incorporated	724 Travis Street at Rusk Avenue Houston, Texas 77002	.60	7,000
George, D. B. Bonbright & Co.	One W. Main Street Rochester, New York 14614	.34	4,000
Carreau, Smith, Inc.	207 State Street Bridgeport, Connecticut 06601	.34	4,000

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<u>Underwriter</u>	<u>Address</u>	<u>Percentage of Purchase Obligation</u>	<u>Number of Shares</u>
Chaplin, McGuinness & Co.	Peoples Bank Building Pittsburgh, Pa. 15222	.34	4,000
Common, Dann & Co., Inc.	Marine Trust Building Buffalo, New York 14203	.34	4,000
Davenport & Co.	801 E. Main Street Richmond, Virginia 23219	.34	4,000
Gairdner & Company Inc.	60 Wall Street New York, New York 10005	.34	4,000
Hoppin Bros. & Co.	55 Broad Street New York, New York 10004	.34	4,000
Murch & Co., Inc.	Hanna Building Cleveland, Ohio 44115	.34	4,000
Sage, Ratty & Co., Inc.	45 Exchange Street Rochester, New York 14614	.34	4,000
Stone & Youngberg	1314 Russ Building San Francisco, California 94104	.34	4,000
Total		100.00%	1,175,000

The Company has been advised by R. W. Pressprich & Co. Incorporated, as Representative of the Underwriters, that the shares are being offered by the Underwriters in part directly to the public as set forth on the cover page of this Prospectus and in part to certain securities dealers at the initial public offering price less a concession of not in excess of 60 cents per share; that the Underwriters may allow, and such dealers may reallow, a concession of not in excess of 25 cents per share to certain other dealers; and that after the shares are released for sale to the public, the initial public offering price and concessions to dealers may be varied from time to time by the Representative.

The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

The Selling Stockholders have agreed that they will not, during a period of 90 days from the date of this Prospectus, sell or otherwise dispose of any shares of the Company's Common Stock without the consent of the Representative.

On April 14, 1969 R. W. Pressprich & Co. Incorporated ("Pressprich") purchased 68,400 shares of Common Stock of the Company for an aggregate purchase price of \$68,400. The Company has the right to repurchase these shares but will not exercise it. Pressprich has agreed not to make any disposition of the shares for three years from the commencement of the offering. Any profit realized from the sale of such shares may be regarded as additional underwriting commissions within the meaning of the Securities Act of 1933. In addition, the Company has agreed to sell to Pressprich for its own account and/or for the account of its profit sharing plan 25,000 shares of Common Stock at a price per share equal to the initial public offering price set forth on the cover page. Pressprich has agreed that it will not sell or otherwise dispose of any such shares for one year from the commencement of the offering and that such

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shares will not be resold except pursuant to an effective Registration Statement unless permitted by rules and regulations under the Securities Act of 1933 then in effect. The Company is advised that such shares are being purchased for investment and without a view to the distribution thereof; however, Pressprich may realize gains upon future sales of the shares so purchased by it.

The Company has agreed, separately with respect to the 68,400 shares acquired on April 14, 1969, and the shares acquired at the initial public offering price, that it will, at the request of Pressprich and on one occasion, register such shares provided the Company may use as audited statements the financial statements prepared in connection with its annual audit. Pressprich will pay the expenses of such registrations other than the expenses of the audit. In addition Pressprich may request the Company to include some or all of such shares in a Registration Statement filed by the Company otherwise than at the request of Pressprich. In connection with any shares sold pursuant to the foregoing provisions, the Company has agreed to indemnify Pressprich and any participating underwriter against liabilities caused by any untrue statement contained in or by any omission of a material fact from any registration statement relating to such shares.

LEGAL OPINIONS

The legality of the Common Stock offered hereby is being passed upon for the Company and the Selling Stockholders by Shea Gallop Climenko & Gould, 330 Madison Avenue, New York, New York 10017, and for the Underwriters by Winthrop, Stimson, Putnam & Roberts, 40 Wall Street, New York, New York 10005.

EXPERTS

The financial statements and supporting schedules included herein and elsewhere in the Registration Statement have been examined by Harris, Kerr, Forster & Company, independent certified public accountants, to the extent set forth in their report and have been included herein and therein in reliance upon their authority as experts.

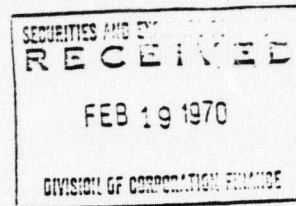
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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
STERLING HOMEX CORPORATION

We have examined the balance sheets of Stirling Homex Corporation and Stirling Homex Corporation and Subsidiaries Consolidated as of July 31, 1969 and the related statements of income and paid-in surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying financial statements, together with the related notes, present fairly the financial position of Stirling Homex Corporation and Stirling Homex Corporation and Subsidiaries Consolidated at July 31, 1969 and the results of their operations for the year then ended in conformity with generally accepted accounting principles.

HARRIS, KEENE, FORSTER & COMPANY

New York, N. Y.
August 27, 1969 (except as to Note II of
the Notes to Financial Statements as to
which the date is February 11, 1970)

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STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED
BALANCE SHEETS

	July 31, 1969		December 31, 1969 (Unaudited)	
	Company	Consolidated	Company	Consolidated
Current Assets:				
Cash	\$ 973,648	\$1,420,160	\$ 2,732,186	\$ 2,809,787
Receivables:				
Trade	17,089	2,321,601	56,601	5,973,145
Notes and accounts receivable from affiliated companies (Note 2)	11,512	358,316	—	64,476
Unbilled construction costs receivable (Note 3) ..	—	297,879	—	644,918
Current portion of long-term receivables (Note 4)	—	131,088	—	27,500
	<u>28,601</u>	<u>3,108,884</u>	<u>56,601</u>	<u>6,710,039</u>
Inventories:				
Salable merchandise, work in process and raw materials, at cost (Note 5)	1,137,299	1,137,299	1,504,893	1,504,893
Land held for development, at cost (Notes 5 and 8)	—	1,377,710	—	1,431,626
	<u>1,137,299</u>	<u>2,515,009</u>	<u>1,504,893</u>	<u>2,936,519</u>
Investments in and receivables from subsidiary companies (eliminated in consolidation):				
Capital shares of subsidiaries	12,200	—	12,200	—
Due from subsidiaries	3,873,129	—	7,074,871	—
	<u>3,885,329</u>	<u>—</u>	<u>7,087,071</u>	<u>—</u>
Prepaid expenses	87,725	89,792	69,490	102,073
Total current assets	<u>6,112,602</u>	<u>7,133,845</u>	<u>11,450,241</u>	<u>12,558,418</u>
Long-Term Receivables (Note 4)	—	584,546	—	584,510
Property, Plant and Equipment, at Cost (Notes 6 and 8)	1,049,279	1,105,847	1,805,916	1,864,196
Less: Accumulated Depreciation	55,355	62,382	109,634	122,318
	<u>993,924</u>	<u>1,043,465</u>	<u>1,696,282</u>	<u>1,741,678</u>
Deferred Charges (Note 7)	342,304	342,304	544,947	544,947
Total	<u>\$7,448,830</u>	<u>\$9,104,160</u>	<u>\$13,691,470</u>	<u>\$15,429,553</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Government's Exhibit 5

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STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED
BALANCE SHEETS
LIABILITIES AND STOCKHOLDERS' EQUITY

	July 31, 1969		December 31, 1969	
	Company	Consolidated	Company (Unaudited)	Consolidated
Current Liabilities:				
Notes and Mortgages Payable (Note 8)	\$1,049,812	\$1,311,336	\$ 4,560,506	\$ 4,821,046
Accounts payable and accrued expenses	439,768	558,018	825,679	893,492
Federal and State income taxes (Notes 9 and 10) ..	250,102	552,068	743,341	1,213,986
Total current liabilities	1,739,682	2,421,422	6,129,526	6,928,524
Notes and Mortgages Payable—Long-term (Note 8) ..	2,761,873	3,423,952	3,787,652	4,239,671
Deferred Income Taxes (Note 9)	183,706	187,021	214,206	215,521
Contingent Liabilities (Note 10)	—	—	—	—
Total liabilities	4,687,261	6,032,395	10,131,384	11,403,716
Stockholders' Equity:				
Preferred stock, par value \$1 per share, authorized 500,000 shares, issued and outstanding—none	—	—	—	—
Common stock, par value \$.01 per share, author- ized 15,000,000 shares, issued and outstanding 8,368,400 shares—July 1969: 8,472,400 shares —December 1969 (Notes 11 and 12)	83,684	83,684	84,724	84,724
Paid-in surplus	1,949,813	1,949,813	2,052,773	2,052,773
Retained earnings:				
Balance—beginning of period	—	—	728,072	1,038,268
Net income for the period	728,072	1,038,268	694,317	850,072
Balance—end of period	728,072	1,038,268	1,422,389	1,888,340
Total stockholders' equity	2,761,569	3,071,765	3,560,086	4,025,837
Total	\$7,448,830	\$9,104,160	\$13,691,470	\$15,429,553

The accompanying Notes to Financial Statements are an integral part of this statement.

Government's Exhibit 5

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STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED
STATEMENT OF PAID-IN SURPLUS

	For the Year Ended July 31, 1969	For the Five Months Ended December 31, 1969 (Unaudited)
Balance—Beginning of Period	\$ —	\$1,949,813
Additions:		
Excess of book value of assets acquired over par value of shares issued in an exchange transaction effective August 1, 1968 (Note 1)	101,627	—
Excess of issue price over par value of common stock (less expenses of \$52,530 for the year ended July 31, 1969)	1,848,186	102,960
Balance—End of Period	<u>\$1,949,813</u>	<u>\$2,052,773</u>

The accompanying Notes to Financial Statements are an integral part of this statement.

Government's Exhibit 5

42576

**STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED
NOTES TO FINANCIAL STATEMENTS**

(Information Relating to the Five Months Ended December 31, 1969 is Unaudited)

1. HISTORY AND BASIS OF CONSOLIDATION:

Stirling Homex Corporation (the Company) was incorporated on July 22, 1968 and commenced operations on August 1, 1968 with the following transactions:

The Company exchanged 3,800,000 shares of its common stock for all of the outstanding stock of Kabeth Properties, Inc., Hollyrood Park II, Inc., and Elmsite Homes, Inc.

The Company also exchanged 200,000 shares of its common stock for the net assets of an affiliated company which had engaged in the manufacture of modular housing.

Subsequent to August 1, 1968, the Company purchased the outstanding stock of Henrietta Construction Corporation and Gaskin Properties, Inc. for \$1,100.

All of the assets acquired were recorded at their book value at the respective transaction dates and are considered purchase acquisitions.

The consolidated financial statements include the accounts of the five wholly-owned subsidiaries and, in consolidation, all material intercompany accounts were eliminated.

At July 31, 1969, the Company's equity in the net assets of its subsidiaries was \$310,201 in excess of its investment therein which represents undistributed earnings of the subsidiaries since their dates of acquisition and has been included in consolidated retained earnings. At December 31, 1969 the Company's equity was \$465,801, representing undistributed earnings which were included in consolidated retained earnings.

2. NOTES AND ACCOUNTS RECEIVABLE FROM AFFILIATED COMPANIES:

The receivables represent sales to companies in which certain officers and directors of the Company or members of their immediate families have an equity interest.

3. UNBILLED CONSTRUCTION COSTS RECEIVABLE:

A wholly-owned subsidiary of the Company is in the process of completing site work for various housing projects. The subsidiary uses a completed contract method of recording income or losses from these contracts.

4. LONG-TERM RECEIVABLES:

	July 31, 1969 Consolidated		December 31, 1969 Consolidated	
	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion
Notes Receivable:				
Non-interest bearing demand notes	\$ 30,000	\$ —	\$ 20,000	\$ —
Mortgages Receivable (See (a) below)				
Mortgage due June 1, 1974—amortiza- tion payments of \$2,500 due quarterly beginning the first day of September 1969, with interest at the prime com- mercial rate in effect on the interest payment date	10,000	249,124	7,500	249,125
Mortgage due June 30, 1975—amortiza- tion payments of \$25,000 due June 30, 1973 and June 30, 1974 and the bal- ance due June 30, 1975. Interest pay- able annually at the prime commercial rate in effect on the interest payment date	—	302,000	—	302,000
Claim for land appropriated by State of New York—at cost of land. Approxi- mately 75% of offer by the State pay- able currently	91,088	33,422	—	33,385
Total	<u>\$131,088</u>	<u>\$584,546</u>	<u>\$ 27,500</u>	<u>\$584,510</u>

(a) The mortgage notes are secured by mortgages on property located in the Town of Clay, New York.

Government's Exhibit 5

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**STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED**

NOTES TO FINANCIAL STATEMENTS—(Continued)
(Information Relating to the Five Months Ended December 31, 1969 is Unaudited)

5. INVENTORIES:

(a) The Company, which commenced operations August 1, 1968, purchased the necessary raw materials during its first fiscal year. The amount of inventories consisted of the following:

	July 31, 1969		December 31, 1969	
	Company	Consolidated	Company	Consolidated
Salable Merchandise	\$ 653,872	\$ 653,872	\$ 780,621	\$ 780,621
Work in Process	12,000	12,000	40,000	40,000
Raw Materials	471,427	471,427	684,272	684,272
Total	<u>\$1,137,299</u>	<u>\$1,137,299</u>	<u>\$1,504,893</u>	<u>\$1,504,893</u>

(b) Land held for development by a wholly-owned subsidiary is recorded at its initial cost together with real estate taxes, mortgage interest and other expenses. At July 31, 1969 the Company had no definite plans for the development of this land.

6. PROPERTY, PLANT AND EQUIPMENT:

	July 31, 1969		December 31, 1969	
	Company	Consolidated	Company	Consolidated
The property, plant and equipment comprised:				
Land	\$ 64,072	\$ 64,072	\$ 146,062	\$ 146,062
Land Improvements	124,038	124,038	163,851	163,851
Buildings	444,498	444,498	890,795	890,795
Machinery and Loose Tools	62,876	62,211	114,592	116,232
Delivery and Construction Equipment	272,639	322,809	371,662	421,832
Furniture, Fixtures and Office Equipment	81,156	85,219	118,954	123,424
	<u>1,049,279</u>	<u>1,105,847</u>	<u>1,805,916</u>	<u>1,864,196</u>
Less: Accumulated depreciation	55,355	62,382	109,634	122,518
Total	<u>\$ 993,924</u>	<u>\$1,043,465</u>	<u>\$1,696,282</u>	<u>\$1,741,678</u>

Depreciation of buildings is provided for on a straight-line method over estimated useful lives of forty-five years. Improvements, furniture and equipment are being depreciated on a straight-line method over estimated useful lives ranging from one to twenty years.

Maintenance and repairs are charged to expense as incurred. Renewals and betterments are capitalized. Generally, when properties are retired, sold or otherwise disposed of, the cost and the related accumulated depreciation and amortization, if determinable, will be removed from the accounts, and gains and losses resulting from such transactions will be reflected in income.

Government's Exhibit 5

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**STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED
NOTES TO FINANCIAL STATEMENTS—(Continued)**
(Information Relating to the Five Months Ended December 31, 1969 is Unaudited)

7. DEFERRED CHARGES:

The deferred charges consist of:

	July 31, 1969		December 31, 1969	
	Company	Consolidated	Company	Consolidated
Research and development expenses	\$ 65,921	\$ 65,921	\$129,182	\$129,182
Start-up expenses	133,461	133,461	147,432	147,432
Initial promotional expenses	102,980	102,980	98,113	98,113
Organizational cost, underwriting expenditures and other	39,942	39,942	170,220	170,220
Total	\$342,304	\$342,304	\$544,947	\$544,947

Research and development expenses are amortized over a sixty month period upon acceptance of a project design and are written off if a project design is cancelled.

Start-up expenses are being amortized over periods ranging from thirty-six to sixty months.

Initial promotional expenses and organizational expenses are being amortized over a sixty month period. Subsequent to July 31, 1969 promotional expenses are being amortized over a thirty-six month period.

8. NOTES AND MORTGAGES PAYABLE:

	July 31, 1969				December 31, 1969			
	Company		Consolidated		Company		Consolidated	
	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion	Current Portion	Long-Term Portion
Bank Loans Payable (See (a) below):								
Bank loans, maturing from September 2, 1969 to March 15, 1971 bearing interest at rates ranging from 7½% to 9%. (Payment due September 2, 1969 refinanced)....	\$1,000,000	\$2,700,000	\$1,000,000	\$2,700,000	\$4,500,000	\$3,700,000	\$4,500,000	\$3,700,000
Mortgages Payable (See (b) below):								
Mortgages maturing from October 16, 1970 through December 1, 1975 and bear interest at rates ranging from 5% to 6%. These mortgages encumber land carried at the aggregate amount of \$1,377,710	—	—	251,301	655,923	10,092	42,775	261,994	513,253
Installment Contracts Payable (See (c) below):								
Installment contracts maturing from April 3, 1970 through April 1, 1973	34,920	50,170	35,901	50,170	34,919	38,531	34,919	38,531
Long-Term Lease Purchases (See (c) below):								
Lease purchase agreements maturing from January 1, 1971 through September 1, 1972	14,892	11,703	24,134	17,839	14,895	6,346	24,133	7,587
Total	\$1,049,812	\$2,761,873	\$1,311,336	\$3,423,952	\$4,560,506	\$3,737,652	\$4,821,046	\$4,259,671

**STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED
NOTES TO FINANCIAL STATEMENTS—(Continued)**

(Information Relating to the Five Months Ended December 31, 1969 is Unaudited)

(a) The bank loan agreement includes, among other things, restrictive covenants relating on a consolidated basis to indebtedness, equity and it prohibits the payment of cash dividends.

(b) The mortgages mature on various dates through February 3, 1974 and require principal payments over the next five fiscal years as follows:

Fiscal Year Ended	July 31, 1969	December 31, 1969
1970	\$251,301	\$261,993
1971	272,680	283,372
1972	253,993	264,685
1973	89,250	99,942
1974	40,000	50,692
1975	—	9,801

(c) Equipment with a gross book value of \$170,287 was encumbered under conditional sales contracts of \$128,064 at July 31, 1969 and \$105,906 at December 31, 1969.

9. DEFERRED INCOME TAXES:

Deferred income taxes are attributable to using the straight-line method of depreciation for book purposes and accelerated depreciation methods for income tax purposes and also to amortizing deferred items over three and five-year periods for book purposes and expensing them in the year incurred for tax purposes.

10. CONTINGENT LIABILITIES:

Two wholly-owned subsidiaries remain contingently liable as makers on first mortgages aggregating \$76,376, the encumbered properties of which were sold during the current year.

The Company will file a consolidated Federal Income Tax Return for the current year. This return is subject to the usual review by the Internal Revenue Service. Investment credit amounting to \$18,184 will be used by the Company in filing its consolidated Federal Income Tax Return.

An action has been brought to enjoin the use of the word "Homex" by the Company. In the opinion of management this action has no merit and would have no material effect on the accompanying financial statements. See also caption "Legal Proceedings" elsewhere in this Prospectus.

11. COMMON STOCK:

The accompanying financial statements have been restated to reflect the authorization of 500,000 shares of \$1.00 par value preferred stock, the increase in authorized number of shares of common stock from 2,500,000 to 15,000,000 of \$.01 par value stock and the outstanding shares of common stock split four for one, all of which was approved at a stockholders' meeting on November 6, 1969.

The transactions in common stock are as follows:

	July 31, 1969		December 31, 1969	
	Issued and Outstanding	Par Value	Issued and Outstanding	Par Value
Balance beginning of period	—	\$ —	8,368,400	\$ 83,684
Stock issued in an exchange for stock and net assets (See Note 1)	4,000,000	40,000	—	—
Stock issued at par for cash, patents, copyrights and processes (the last three carried at \$1.00)	2,400,000	24,000	—	—
Stock sold at \$1.00 per share (excess of sales price over par value credited to paid-in surplus)	1,968,400	19,684	104,000	1,040
Balance end of period	8,368,400	\$ 83,684	8,472,400	\$ 84,724

Government's Exhibit 5

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STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED

NOTES TO FINANCIAL STATEMENTS—(Continued)

(Information Relating to the Five Months Ended December 31, 1969 is Unaudited)

12. STOCK OPTION PLAN:

A qualified stock option plan was approved by the stockholders on November 22, 1968 whereby options to purchase 400,000 shares of common stock may be granted to officers and key employees at not less than the fair market value on the date of grant. Options are exercisable over a period of not more than five years from date of grant. As of January 31, 1970, 275,575 options had been granted.

The Company will make no charges to income with respect to stock options granted and when options are exercised the excess of the option price over the par value of common stock issued will be credited to paid-in surplus.

13. GENERAL INFORMATION:

(a) The Company records income from the sale of modular dwelling units when the units are transferred to independent carriers which utilize facilities on the Company's premises for the storage and handling of the units. A subsidiary of the Company, engaged in completing the site work, uses the completed contract method of recording income (see Note 3). (b) The Company's sales to local housing authorities are for federally financed housing projects which qualify for financial assistance from the Department of Housing and Urban Development. Due to the nature of these sales no provision for doubtful accounts is considered necessary by the Company.

14. SUPPLEMENTARY PROFIT AND LOSS INFORMATION:

Supplementary information not appearing as a separate item in the statements is as follows:

AS TO STIRLING HOMEX CORPORATION:

	Year Ended July 31, 1969	Five Months Ended December 31, 1969
Maintenance and Repairs:		
Cost of sales	\$22,221	\$10,886
Administrative and selling expenses	257	1,876
Depreciation and Amortization:		
Cost of sales	63,058	49,150
Administrative and selling expenses	—	5,129
Taxes other than taxes on income:		
Payroll taxes:		
Cost of sales	62,787	30,105
Administrative and selling expenses	7,540	11,034
Property taxes:		
Cost of sales	5,925	3,220
Administrative and selling expenses	—	1,420
Rents:		
Cost of sales	3,386	2,877
Administrative and selling expenses	11,445	22,079

Government's Exhibit 5

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STIRLING HOMEX CORPORATION
AND
STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED
NOTES TO FINANCIAL STATEMENTS—(Continued)
(Information Relating to the Five Months Ended December 31, 1969 is Unaudited)

AS TO STIRLING HOMEX CORPORATION AND SUBSIDIARIES CONSOLIDATED:

	Year Ended July 31, 1969	Five Months Ended December 31, 1969
Maintenance and Repairs:		
Cost of sales	\$22,221	\$10,886
Administrative and selling expenses	257	1,876
Depreciation and Amortization:		
Cost of sales	67,985	49,150
Uncompleted contract cost	2,100	5,857
Administrative and selling expenses	—	5,129
Taxes other than taxes on income:		
Payroll taxes:		
Cost of sales	89,846	30,524
Administrative and selling expenses	7,540	11,034
Land cost	476	772
Property taxes:		
Cost of sales	6,347	3,333
Land cost	18,452	14,416
Administrative and selling expenses	—	1,420
Rents:		
Cost of sales	3,386	4,355
Administrative and selling expenses	11,445	22,079

There were no management fees, service fees or royalties paid during the above periods.

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Government's Exhibit 5

42582



1,175,000 Shares

Common Stock

PROSPECTUS

February 19, 1970

R.W. pressprich
& Co. INCORPORATED

Government's Exhibit 5

PART II

42583

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 23. Other Expenses of Issuance and Distribution.

The expenses in connection with the issuance and distribution of securities being registered other than underwriting discounts and commissions are estimated as follows:

Registration fee	\$ 4,186
Printing	36,000
Accounting fees and expenses	12,000
Legal fees and expenses	25,000
Blue Sky fees and expenses	10,000
Transfer Agent and Registrar fees	1,500
Miscellaneous	2,314
Total	\$91,000

All the foregoing expenses, except accounting and transfer agent and registrar fees which are being paid by the Company, are being shared by the Selling Stockholders and the Company in proportion to the amount of shares each such Selling Stockholder and the Company are selling.

Item 26. Recent Sales of Unregistered Securities.

On July 31, 1968, the Company, in connection with its organization, made the following issuances of its Common Stock, as now constituted: (a) an aggregate of 2,400,000 shares to David Stirling, Jr., William G. Stirling and Harper Sibley, Jr. in exchange for the assignment to the Company of the know-how, processes and developments relating to the manufacture of modular housing, the U. S. patent application covering such know-how, processes and developments and a cash payment of \$6,000; (b) 1,200,000 shares to Harling Properties, Inc., all of the stock of which is owned by Harper Sibley, Jr. and Hickory Hill Development Corporation (all of the stock of which is owned by David Stirling, Sr., David Stirling, Jr. and William G. Stirling) in exchange for all of the outstanding stock of Kabeth Properties, Inc.; (c) 2,600,000 shares to Stirling Brothers Operating Co., Inc., all of the stock of which is owned by David Stirling, Jr., William G. Stirling and David Stirling, Sr., in exchange for all of the outstanding stock of Hollywood Park II, Inc. and Elmsite Homes, Inc.; (d) 200,000 shares to Stirling Cubet Corporation, all of the stock of which is owned by Stirling Brothers Operating Co., Inc., in exchange for certain of its assets, including the plant and land in Avon, New York currently used by the Company as its executive offices and manufacturing facility. In each instance, the shares were issued without the use of underwriters and the shareholder took his shares for investment. On August 16, 1968 the Company issued and sold 800,000 shares each to Coenen Securities Corporation and Saunders Stiver and Company as agents for 48 persons (Saunders Stiver took 272,500 of such shares for its own account) each of whom took the shares for investment, in exchange for an aggregate cash payment of \$1,600,000. Coenen and Saunders Stiver received a fee of \$15,000 each in connection with such sale of 1,600,000 shares.

In addition, during the period subsequent to the Company's organization through August 11, 1969, (the date of the last sale), the Company issued and sold an aggregate of 472,400 shares of its Common Stock to 13 persons, including R. W. Pressprich & Co. Incorporated and four employees, officers and directors, for an aggregate cash consideration of \$472,400. No underwriters were involved and each of such persons took his shares for investment.

During the period from the adoption of its Stock Option Plan in November 1968 through January 31, 1970, the Company has granted options to purchase 273,573 shares of its Common Stock to 64 key employees of the Company. Such options cannot be transferred except upon the death of the option holder.

See "Capitalization" and Note 8 to Financial Statements with respect to notes the Company has issued and sold.

With respect to all of the above transactions, the Company relied upon the exemption provided in Section 4(2) of the Securities Act of 1933.

Government's Exhibit 5

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Item 31. *Financial Statements and Exhibits.*

(b) Exhibits:

- 1 —Forms of Agreement Among Underwriters, Underwriting Agreement and Selling Agreement, as revised.
- 4b —Letter amendment, dated February 11, 1970, to Promissory Note, dated October 27, 1969, between the Company and First National City Bank.
- 6b —Opinion of Shea Gallop Climenko & Gould, dated February 19, 1970.

Government's Exhibit 5

SIGNATURES

42565

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in New York, New York, on the _____ day of February, 1970.

STIRLING HOMEX CORPORATION

By [Signature]
(Harold M. Yanowitch, Executive Vice President)

Pursuant to the requirements of the Securities Act of 1933, this Amendment to the Registration Statement has been signed below by the following persons in the capacities and on the dates indicated:

Signature	Title	Date
*DAVID STIRLING, JR. (David Stirling, Jr.)	Chairman of the Board of Directors and Chief Executive Officer, Director (Principal Executive Officer)	February 19, 1970
*RICHARD E. KARKOW (Richard E. Karkow)	Treasurer, Director (Principal Financial Officer)	February 19, 1970
*EDWIN J. SHULZ (Edwin J. Shulz)	Controller (Principal Accounting Officer)	
*WILLIAM G. STIRLING (William G. Stirling)	Director	
[Signature] (Harold M. Yanowitch)	Director	
*DAVID STIRLING, SR. (David Stirling, Sr.)	Director	
*HARPER SIBLEY, JR. (Harper Sibley, Jr.)	Director	
*THEODORE W. KHEEL (Theodore W. Kheel)	Director	
*JOHN W. CASTE (John W. Caste)	Director	
*By <u>[Signature]</u> (Harold M. Yanowitch, Attorney-in-Fact)		

Government's Exhibit 5

66

SHEA GALLOP CLIMENKO & GOULD

330 MADISON AVENUE
NEW YORK, NEW YORK 10017AREA CODE 212
WO 1-3200
CABLE ADDRESS
HOLMANWILLIAM A. SHEA
M. ROBERT GALLOP
JESSE CLIMENKO
MILTON S. GOULD
ALLAN FRANK
BRUCE A. HECKER
WILLIAM S. JAFFE
JAMES J. A. GALLAGHER
BERNARD D. FISCHMAN
BERNARD J. RUGGIERI
MARTIN I. SHELTON
ALLAN J. PARKER
RALPH L. ELIUS
ROBERT J. RUBEN
GEORGE DE GENARO
IRVING JACOBSON
CLAYTON D. HOLLINGER
WILLIAM SCHURTMAN
SHELDON D. CAMMY
SAMUEL M. INGRAM, JR.
FREDRIC J. KUNK
JOHN J. MCDERMOTT
JUDAH GRIBETZ

February 19, 1970

42600

Stirling Homex Corporation
1130 East River Road
Avon, New York 14414

Dear Sirs:

In connection with the issuance and sale by Stirling Homex Corporation, a Delaware corporation (the "Company"), of 68,400 shares of its Common Stock, par value \$.01 per share, to R. W. Pressprich & Co. Incorporated and the proposed issuance and sale by the Company of 25,000 shares of such Common Stock to R. W. Pressprich & Co. Incorporated, we have examined such documents, corporate records and questions of law as we have deemed relevant and, on the basis of such examination, we advise you that, in our opinion:

1. The 68,400 shares of Common Stock issued by the Company have been duly authorized and validly issued and are full paid and non-assessable; and
2. The 25,000 shares of Common Stock proposed to be issued by the Company have been duly authorized and, when issued and paid for in accordance with the terms of the Underwriting Agreement to be entered into by the Company and R. W. Pressprich & Co. Incorporated, as representative of the several underwriters, will be duly and validly issued and full paid and non-assessable.

Government's Exhibit 5

SHEA GALLOP CLIMENKO & GOULD

-2-

February 19, 1970
Stirling Homex Corporation

42001

We consent to the filing of this opinion as an exhibit to the Registration Statement relating to the above-mentioned stock which has been filed by the Company under the Securities Act of 1933 and to the reference to our firm in the Prospectus constituting a part of such Registration Statement under the caption "Legal Opinions". Notwithstanding the fact that we are giving such consent, we do not admit that we are a person whose consent is required to be filed with the Registration Statement under the Securities Act of 1933.

Very truly yours,

Shea Gallop Climenko & Gould

Government's Exhibit 8

Registration No. 2- 40122

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

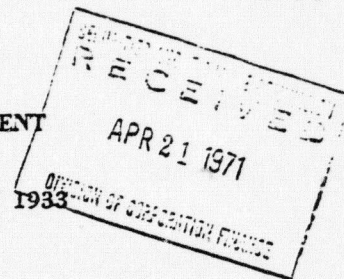
42978

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933



STIRLING HOMEX CORPORATION

(Exact name of registrant as specified in charter)

1150 East River Road

Avon, New York 14414

(Address of principal executive offices)

HAROLD M. YANOWITZ

STIRLING HOMEX CORPORATION

1150 East River Road

Avon, New York 14414

(Name and address of agent for service)

Copy to:

GEORGE R. LASHNITS

BROWN, WOOD, FULLER, CALDWELL & IVEY

70 Pine Street

New York, N. Y. 10005

Approximate date of commencement of proposed sale to public:

As soon as practicable after the Registration Statement has become effective.

CALCULATION OF REGISTRATION FEE

Title of each class of securities being registered	Amount being registered	Proposed maximum offering price per share*	Proposed maximum aggregate offering price*	Amount of registration fee
Common stock, \$.01 par value	1,025,000 shs.	\$25	\$25,625,000	\$3,125

*Estimated solely for the purpose of determining the amount of the registration fee.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 3(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 3(a), may determine.

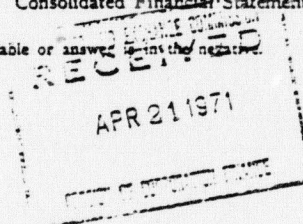
Government's Exhibit 8

STIRLING HOMEX CORPORATION

Cross reference sheet pursuant to Rule 404(c)

<u>Item Number</u>	<u>Location in Prospectus</u>
1. Distribution Spread	Cover Page; Underwriting
2. Plan of Distribution	Underwriting
3. Use of Proceeds to Registrant	Purpose of the Issue
4. Sales Otherwise Than for Cash	"
5. Capital Structure	Capitalization
6. Summary of Earnings	Consolidated Statement of Income
7. Organization of Registrant	Organization and Certain Transactions
8. Parents of Registrant	Organization and Certain Transactions
9. Description of Business	The Company; Business
10. Description of Property	Properties
11. Organization Within 5 Years	Organization and Certain Transactions
12. Pending Legal Proceedings	Legal Proceedings
13. Capital Stock Being Registered	Description of Capital Stock
14. Long-Term Debt Being Registered	"
15. Other Securities Being Registered	"
16. Directors and Executive Officers	Management
17. Remuneration of Directors and Officers	Management
18. Options to Purchase Securities	Stock Option Plan
19. Principal Holders of Securities	Principal Stockholders
20. Interest of Management and Others in Certain Transactions	Organization and Certain Transactions
21. Financial Statements	Consolidated Financial Statements

* Indicates that item is omitted from Prospectus because it is not applicable or answer is in the negative.



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PRELIMINARY PROSPECTUS DATED APRIL 21, 1971

PROSPECTUS

1,025,000 Shares

Stirling Homex Corporation

Common Stock

(Par Value \$.01 Per Share)

Of the shares of Common Stock offered hereby, 1,000,000 shares will be sold by Stirling Homex Corporation and 25,000 shares will be sold by stockholder. See "Underwriting". Stirling Homex Corporation will receive none of the proceeds from the sale of the shares by the selling stockholder.

The Common Stock is presently traded in the over-the-counter market. The highest closing bid price of the Common Stock in such market (as reported by the National Association of Securities Dealers' Automatic Quotations) for April 20, 1971 was 20 1/2¢ per share.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public	Underwriting Discount(1)	Proceeds to Company(2)	Proceeds to Selling Stockholder
Per Share	\$	\$	\$	\$
Total	\$	\$	\$	\$

(1) The Company and the selling stockholder have agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

(2) Before deducting expenses payable by the Company estimated at \$

The Common Stock is offered by the several Underwriters subject to prior sale, when, as and if issued and delivered to and accepted by such Underwriters, and subject to approval of certain legal matters by their counsel, Messrs. Brown, Wood, Fuller, Caldwell & Ivey, and by counsel for the Company, Messrs. Shea Gallop Climenko & Gould, and to certain other conditions. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part.

Merrill Lynch, Pierce, Fenner & Smith

Incorporated

May , 1971

RECEIVED

APR 21 1971

FIVE IS OFFICIAL DATE

A registration statement relating to these securities has been filed with the Securities and Exchange Commission but has not yet become effective. Information contained herein is subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

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No dealer, salesman or any other person has been authorized by the Company, the selling stockholder or the Underwriters to give any information or make any representations other than those contained in this Prospectus, and if given or made, such information or representations must not be relied upon. This Prospectus does not constitute an offer to sell nor the solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. Except where otherwise indicated, this Prospectus speaks as of its date. Neither the delivery hereof nor any sale made hereunder shall create an implication that the affairs of the Company have continued without change since such date.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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THE COMPANY

Stirling Homex Corporation manufactures modular housing units and believes that it is one of the nation's leading producers of multi-family modular housing. The modules are manufactured on an assembly-line, using conventional building materials, and are combined at the housing site to form completed dwelling units. All sales to date have been of two story, attached, wood frame townhouses. The Company has designed a concrete and steel frame module for use in high-rise buildings and has been selected by two housing authorities and the Department of Housing and Urban Development ("HUD") to build four high-rise buildings utilizing the concrete and steel frame modules.

All of the Company's sales of dwelling units for the last fiscal year and substantially all of its backlog represent sales to and orders from either local housing authorities or non-profit sponsors for federally assisted housing projects. Generally, upon receipt of a commitment from a customer, the Company purchases the land, prepares the site, lays the foundations, arranges utility connections, manufactures, installs, connects the modules, and landscapes the housing site, thereby providing a total service to the customer in delivering turnkey housing. Modules are equipped in the manufacturing process with the necessary plumbing and heating fixtures, electrical wiring, appliances, floor and wall coverings.

Stirling Homex Corporation (with its subsidiaries the "Company") was incorporated in Delaware in 1968. Its principal plant and executive offices are at 1150 East River Road, Avon, New York 14414, telephone 716-926-2481.

PURPOSE OF THE ISSUE

The net proceeds to the Company from the sale of its shares offered hereby (approximately \$) will be added to the general funds of the Company and will be available for working capital. The working capital requirements of the Company have increased substantially as a result of the growth in sales volume. Additional working capital will be required in connection with the operation of the proposed new plant in Gulfport, Mississippi. See "Properties—Mississippi Plant". Additions to plant, property and equipment aggregated more than \$8,100,000 during the year and seven months ended February 28, 1971.

As of March 31, 1971, the Company had outstanding \$34,200,000 of short-term indebtedness to banks which had been incurred for working capital purposes. The Company estimates that substantially all the net proceeds from the sale of its shares offered hereby will be applied initially to the temporary reduction of such indebtedness. The Company intends to continue to make short-term borrowings from banks in substantial amounts for working capital purposes.

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CAPITALIZATION

The following table sets forth the capitalization of the Company as of February 28, 1971 and the adjusted amounts giving effect to the issue and sale of the shares of Common Stock offered by the Company hereby.

	Outstanding	As Adjusted
DEBT:		
Short term—notes payable to banks(1)	\$34,200,000	\$
Long term—sundry indebtedness(2)	\$ 667,463	\$ 667,463
Total Debt	<u>\$34,867,463</u>	<u>\$</u>
STOCKHOLDERS' EQUITY:		
Preferred Stock, par value \$1 per share:		
Authorized 500,000 shares, no shares outstanding	—	—
Common Stock, par value \$.01 per share:		
Authorized 15,000,000 shares; outstanding 8,907,400 shares; as adjusted 9,907,400 shares(3)	\$ 89,074	\$ 99,074
Additional paid-in capital	\$ 8,476,638	\$
Retained earnings	\$ 4,725,601	\$ 4,725,601
Total Stockholders' Equity	<u>\$13,291,313</u>	<u>\$</u>

(1) As of March 31, 1971. Notes payable consist of 90 day notes to banks bearing interest at a rate of $\frac{1}{4}\%$ above the respective bank's best rate on the date of issue.

(2) See Note 8 of Notes to Consolidated Financial Statements.

(3) Does not include 890,000 shares reserved for issuance upon the exercise of stock options granted or that may be granted under the Stock Option Plan. See "Stock Option Plan".

For information concerning obligations under leases on real property, see "Properties—Mississippi Plant" and Note 11 of Notes to Consolidated Financial Statements.

PRICE RANGE OF COMMON STOCK

The Company's Common Stock is traded in the over-the-counter market. The following table sets forth the range of high bid prices for the Common Stock since its initial public offering on February 19, 1970 at \$16.50 per share, as reported by the National Quotation Bureau, Incorporated. The prices represent prices between dealers, not including any retail mark-up, mark-down or commission, and do not necessarily represent actual transactions.

	High	Low
1970		
1st Quarter (from February 19)	51 $\frac{1}{4}$	26
2nd Quarter	49 $\frac{3}{4}$	8 $\frac{3}{4}$
3rd Quarter	27 $\frac{3}{4}$	11 $\frac{1}{4}$
4th Quarter	25 $\frac{1}{4}$	16
1971		
1st Quarter	26 $\frac{3}{4}$	18
2nd Quarter (through April 20)	23 $\frac{1}{4}$	19 $\frac{3}{4}$

The highest closing bid price of the Common Stock in the over-the-counter market (as reported by the National Association of Securities Dealers Automatic Quotations) for April 20, 1971 was 20 $\frac{1}{4}$ per share.

DIVIDENDS

The Company has never declared or paid cash dividends on its Common Stock. All earnings are reinvested in the business. It is not the present intention of the Board of Directors to declare or pay any cash dividends for the foreseeable future.

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CONSOLIDATED STATEMENT OF INCOME

The following Consolidated Statement of Income of Stirling Homex Corporation and consolidated subsidiaries has been examined as to the two years ended July 31, 1970 by Harris, Kerr, Forster & Company, independent certified public accountants, and as to the seven month period ended February 28, 1971 by Peat, Marwick, Mitchell & Co., independent certified public accountants, as set forth in their reports appearing elsewhere in this Prospectus. It should be read in conjunction with the other financial statements for the two years ended July 31, 1970 and the seven month period ended February 28, 1971 and the related notes included in this Prospectus. With respect to the figures for the seven month period ended February 28, 1970 which are unaudited, the management of the Company believes that all adjustments (none of which were other than normal recurring accruals) necessary to a fair statement of the results for such interim period have been included.

	Year ended		Seven months ended	
	July 31, 1969	July 31, 1970	February 28, 1970 (Unaudited)	February 28, 1971 (A)
Revenues:				
Sales—trade (Notes 3 and 4) (B) ..	\$ 4,248,713	\$22,094,127	\$11,360,189	\$19,452,281
Sales to affiliates	6,140,338	459,941	459,941	—
Equity in undistributed net income of finance subsidiary (Note 1) ..	—	—	—	104,928
Total revenue	\$10,389,051	\$22,554,068	\$11,820,130	\$19,557,209
Costs and expenses:				
Cost of sales (Notes 3 & 4)	7,213,939	15,159,715	7,467,343	13,868,243
Administrative and selling expenses	701,157	2,390,604	1,514,029	1,642,063
Interest—long-term debt	48,420	9,165	5,862	18,943
other	26,342	639,016	298,078	833,029
Total costs and expenses ..	\$ 7,989,858	\$18,198,500	\$ 9,285,312	\$16,362,278
Income before Federal and state income taxes	\$ 2,399,193	\$ 4,355,568	\$ 2,534,818	\$ 3,194,931
Income taxes (Note 9):				
Federal—current	730,554	1,757,513	969,000	841,000
deferred	422,343	317,386	267,000	548,000
State—current	112,658	208,469	143,000	127,000
deferred	51,157	37,011	34,000	71,000
	\$ 1,316,712	\$ 2,320,379	\$ 1,413,000	\$ 1,587,000
Net income (B)	\$ 1,082,481	\$ 2,035,189	\$ 1,121,818	\$ 1,607,931
Average shares outstanding (C)	8,025,432	8,649,483	8,472,400	8,902,250
Earnings per common share (C)	\$.13	\$.24	\$.13	\$.18

Notes:

(A) The results for the seven months ended February 28, 1971 should not necessarily be considered indicative of the results for the year ending July 31, 1971.

(B) Sales-trade for the year ended July 31, 1969 and for the seven months ended February 28, 1971 include sales of land held for development in the respective amounts of \$750,000 and \$1,822,723, resulting in net income therefrom of approximately \$187,000 and \$556,000, or \$.02 per share and \$.06 per share, respectively. See Note 4 of Notes to Consolidated Financial Statements.

(C) Earnings per common share are based upon the weighted average number of shares outstanding during the periods presented after giving retroactive effect to the four-for-one stock split effected in February 1970. Stock options outstanding during these periods have not been included in this computation since the effect of their inclusion would be insignificant.

(D) Numerical note references are to Notes to Consolidated Financial Statements.

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BUSINESS

The Company is engaged in the assembly-line manufacture and sale of modular housing units. The Company manufactures modules for two story wood frame townhouses and has developed concrete and steel frame modules for high-rise structures. Substantially all of the dwelling units sold have been purchased by customers for rental rather than resale.

Products

The Townhouse

The townhouse consists of two, three or four modules, varying with the number of bedrooms. Modules are approximately 12 feet in width, up to 31 feet in length and 9 feet in height and are stacked and joined to form a two story dwelling unit. All modules, upon leaving the assembly-line, contain and have affixed or installed wall and floor coverings, wood trim, drapery fixtures, cabinetry, stairs, heating and plumbing fixtures, all necessary electrical systems and fixtures, and welded insulated glass windows. If ordered, a stove, refrigerator and air conditioning system are included. The exterior walls are insulated, sheathed and finished except where conventional brick is used, which is applied at the site.

To date, all of the Company's sales of dwelling units have been of two story attached townhouses. Studio, two, three, four and five bedroom models are available, with a variety of exterior treatments. When the modules have been joined and utilities connected at the building site, nothing further is required to prepare the dwelling units for occupancy. The Company may adjust its production line to meet the specifications of a substantial order. Dwelling units vary in price to the Company's customers from \$15,000 for a studio unit to \$26,000 for a five bedroom unit, inclusive of average site work, installation and transportation costs, and exclusive of land costs.

The Company performs the on-site development work and the installation of the modules in a conventional manner. It utilizes independent contractors and local union construction personnel and tradesmen under the supervision of the Company's employees. Primary on-site development work consists of preparing the foundations, making the necessary utility connections, and installing sewers. Townhouse modules are transported to the site by truck or rail, lifted by crane onto the foundations and joined to each other and the foundation. The electrical, heating and plumbing systems between the modules are connected, and pre-packaged trim is applied where the modules are joined. Gutters and downspouts are then installed and brick is applied to the first floor exterior when required by the customer. Finally, the appropriate areas of the site are landscaped and paved.

The High-Rise

The Company has designed a concrete and steel frame module for use in high-rise buildings up to twenty floors in height. It has been selected by two housing authorities and HUD and, subject to entering into contracts, will build four high-rise apartment buildings (twelve and thirteen stories) using these modules. The modules that will become the top floor of the building are placed on the building foundation which has electronically controlled hydraulic jacks and supporting steel structures in alternate bays. After those modules are connected to each other, the jacks raise the entire floor 10 feet and new modules are inserted in the alternate bays below. The jacks are then lowered and the other bays are filled with modules to complete the floor, which is then elevated. This process is repeated until the building is completely erected. The high-rise buildings will contain elevators. Non-load bearing interior walls may be placed wherever desired, thus permitting flexibility of design.

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The Company has built a four story building using this system adjacent to its Avon plant. This building is used both as a sales facility and to train Company employees in the use of its high-rise installation system. Patent applications are pending with respect to the Company's concrete and steel frame module and its system for erecting a high-rise building, but no assurance can be given that patents will be granted.

Operation Breakthrough

The Company's high-rise system has been selected by HUD as one of twenty-two winners in its "Operation Breakthrough" program. As part of Operation Breakthrough, the Company and HUD are negotiating the terms of an agreement pursuant to which the Company will construct a 13-story building containing more than 200 apartments for the elderly in Memphis, Tennessee. This program has as its goal the development of new technology and greater production capacity in the housing industry to assist in meeting the continuing high demand for housing in the United States.

Sales

Trade sales for the year ended July 31, 1970, and for the seven months ended February 28, 1971, were \$22,094,127 and \$19,432,281. The sales for the respective periods were to nine customers and eighteen customers. For the year ended July 31, 1970, the largest customer accounted for approximately 58% and for the seven months ended February 28, 1971, the largest two customers accounted for about 19% and 15% of sales. One of the latter two customers was among the assignees of a single contract which would have accounted for about 40% of sales for the seven month period if it had not been assigned in part. No other customer accounted for as much as 10% of sales for either period. All the sales of dwelling units for both periods were to either local housing authorities or non-profit sponsors for federally assisted housing projects.

Of the sales for the seven months ended February 28, 1971, about 29%, including a substantial part of those made pursuant to the contract referred to above, are subject to the selection of sites by the customers and all sales are subject to certain other conditions including the securing of various approvals, some of which have not yet been complied with. The Company has never had any significant difficulty in complying with such conditions and does not anticipate that it will have any in connection with the sales referred to.

Contracts with the Company's customers generally provide for payment upon completion and receipt of all approvals necessary for occupancy or upon completion of each contract phase. Sales of modules are recognized by the Company for accounting purposes when units are manufactured and assigned to specific contracts. Installation work is recorded on the percentage-of-completion method. See Note 3 of Notes to Consolidated Financial Statements.

During the fiscal year ended July 31, 1969, the Company sold two parcels of undeveloped land and during the seven months ended February 28, 1971 it sold one parcel. Trade sales include \$730,000 for the year ended July 31, 1969 and \$1,822,723 for the seven months ended February 28, 1971 in respect of these sales, which resulted in net income for the respective periods of about \$187,000 (18% of the total net income) and \$536,000 (35% of the total net income). All the sales of undeveloped land provided for deferred payment of part of the purchase price. See Note 4 of Notes to Consolidated Financial Statements. The Company does not anticipate that land sales will be a significant part of its business in the future.

Manufacturing

Assembly-Line Manufacture of Modules

The townhouse modules are manufactured at the Company's Avon plant on a center assembly-line process. At the first work station the floor assembly is built. At succeeding work stations, wall systems,

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ceiling systems, roof systems, kitchen assemblies, electrical systems and fixtures, plumbing systems and fixtures, heating systems and fixtures, insulation, doors and trim, ceramic tile, resilient flooring or carpeting and, when ordered, air conditioning systems, stoves and refrigerators are added in sequence. As the modules progress down the assembly-line, constituent parts are cut to size, shaped and assembled on either side and overhead of the assembly-line and are installed in the module. The module is then wrapped in weather-proof plasticized paper for temporary storage or shipment. In a separate facility the Company manufactures components, such as cabinets and stairs, which are installed on the assembly-line.

Generally about forty modules can be completed in a day in the Company's present facilities. The production facility to be constructed in Gulfport, Mississippi is intended to have the capacity to complete 100 modules in a day. See "Properties—Mississippi Plant." The Company has U. S. and foreign patent applications pending with respect to its assembly-line method of manufacturing modules but can give no assurance that such applications will be successful.

Use of Conventional Materials

The Company uses conventional building materials. It utilizes gas heat (townhouse) or electric heat (high-rise), double party wall and separate ceiling/floor systems, copper water piping, adhesives, nail and screw fastenings and vinyl interior wall coverings. Many components, such as fixtures, appliances and hardware, are purchased ready for installation from independent suppliers. The Company does not have long term purchase contracts with its suppliers; however it believes its raw materials and components are readily available from alternative sources. According to the desired specifications of a particular customer, various interchangeable materials may be utilized with no adverse effect on production efficiency.

The Company performs quality control inspections throughout the manufacturing process. The Company believes its manufacturing system, which eliminates exposure of the materials to the elements during manufacture, enables it to process and install materials in prime condition and to maintain greater quality control and uniformity in its housing than exist in the conventional housing industry. The Company warrants the materials and workmanship of its modules and site improvements for one year from the date of purchase by a customer.

Time Factors

Since on-site construction requirements are reduced to a minimum, reliance upon favorable weather and other local conditions is minimized. Accordingly, the Company's modular housing system permits the complete installation of a housing unit, from excavation of the foundation to occupancy, in less time than is required by conventional construction and eliminates to a large extent clean-up after completion of the project. The reduced construction time lessens the amount of interest costs incurred during development and shortens the interval between the commencement of a project and occupancy and the production of income. Where relocation of families is required, as may be the case in low income housing, the relocation period is appreciably shortened. Although the Company has experienced only minor delays in its site work, it can give no assurance that it will not encounter delays in the future.

Transportation of Units

The Company ships modules to sites and staging areas by flatbed trailer and railroad flatcar. It owns 127 trailers and five tractors and leases 50 flatcars. The Company also utilizes independent carriers which furnish additional tractors and drivers. Shipments by truck, because of cost factors, are not generally made beyond a radius of about 400 miles; shipments by rail may be made to destinations

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1,500 miles from the plant site. Upon the completion of its new facility to be constructed at Gulfport, Mississippi, which will include an 8,500 foot loading dock, the Company intends to ship modules by barge over inland waterway systems as well as by truck or rail where appropriate.

Codes and Legislation

The Company's products are subject to the requirements of local building codes. In its opinion, the Company has established building specifications which meet the requirements of most of these codes. Prior to the commencement of a project, the specific local code is studied by the Company to insure that its product will comply with it. In this connection, representatives of the New York Board of Fire Underwriters inspect the wiring in the modules on the assembly-line and render their approvals in the factory. The location, site plan and installation of its modular units are also subject to local zoning and other similar ordinances.

Minor delays in the completion of its building projects have been experienced by the Company due to the application of such building codes and ordinances. The Company cannot give any assurance that it will not encounter similar delays in the future.

Several states have enacted legislation which affects factory built housing. Recently, such legislation has been introduced in the New York State Legislature. The Company believes that a primary objective of these statutes is the establishment of state-wide standards which may be adhered to by manufacturers in lieu of compliance with various local building codes. However, the Company cannot predict what effect either existing or pending legislation in this area will have on its products or operations.

A Presidential Executive Order issued on March 29, 1971 established a Construction Industry Stabilization Committee to "assure generally conformance of any increase in any wage or salary [established pursuant to a collective bargaining agreement] in the construction industry" with the provisions of such order. It also established an Interagency Committee on Construction to "develop criteria for the determination of acceptable prices in construction contracts as well as criteria for acceptable compensation, including bonuses, stock options and the like." The Company is unable to predict the impact, if any, of this Executive Order and its implementation on the Company's operations.

Federal and state regulations limit the dimensions and weight of loads permitted on rail and highways. Such regulations have not had a material adverse effect on the operations of the Company.

Labor Relations

The Company employs about 1,000 people exclusive of site labor, of whom about 365 are executive, administrative or clerical with the balance engaged in production. In September 1968 the production employees were organized in an industrial unit by the United Brotherhood of Carpenters and Joiners of America, the largest of the building trades unions, representing approximately 30% of all building trades union employees. The Company thereafter entered into a collective bargaining agreement, expiring in September 1971, with the local union providing an industrial contract covering all production employees.

In June 1969 the Company entered into an international agreement with the national office of the United Brotherhood of Carpenters and Joiners of America. Under this contract the Union has agreed to furnish competent journeymen on a non-discriminatory basis to install Company modules anywhere within the jurisdiction of the Union. In return, the Company has agreed to recognize the

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jurisdictional claims of the Union and not to subcontract any work within the Union's jurisdiction which is to be performed at the job site except to a contractor who is a party to an agreement with the Union or who agrees in writing to be bound by the terms of the aforementioned agreement. As a result, the modules are manufactured and dwellings are installed completely by building trades union labor. The Company has had no strikes or interferences with its production or on-site erection of its dwelling units.

Freedom from work interruptions as a result of labor problems is important to the continued success of the Company's business. The Company believes that the above-mentioned agreements have contributed to its present satisfactory labor relations, but it can give no assurance that it will be free of labor problems in the future.

The Company and the Union have agreed to cooperate in a program to provide free training and job opportunities to unemployed unskilled labor and have established an educational program at the Company's Avon plants. The United States Department of Labor and the New York State Department of Labor have awarded the Company manpower grants to assist in the training, in cooperation with the Union, of unemployed unskilled workers in the Rochester area. The Company also offers a continuing education program to all of its employees, with over 90 courses ranging from the skills required on the assembly-line to computer simulation exercises for management.

Financing

The Company believes that its assembly-line produced modular housing is particularly suited to assist in meeting the aims of the federal low rent and moderate income housing programs by permitting the erection of large numbers of approved units in much less time than is possible with conventional construction methods. The Company has directed and intends to direct a significant portion of its sales efforts toward local housing authorities qualified for various forms of financial assistance from HUD and toward private non-profit organizations which sponsor housing for families eligible to receive rental assistance under the National Housing Act.

Financing Sales to Local Housing Authorities

Townhouses have been sold to ten local housing authorities in New York, Ohio, Pennsylvania, Massachusetts, Maine, and Washington, D. C. A qualified local housing authority, in order to raise funds to pay the Company, borrows funds for a period of 60 days to one year, either in the form of a direct loan from HUD, or more commonly, by issuing tax exempt notes which are sold in the private money market and are secured by the full faith and credit of the United States Government. Thereafter, HUD, as the agent for the local housing authority, sells bonds of the local housing authority to pay off the short term indebtedness of the authority and to provide permanent financing for the project. Local housing authority bonds are normally sold with maturities of up to forty years. The bonds are tax exempt and, like the notes mentioned above, are secured by the full faith and credit of the United States Government.

U. S. Shelter Corporation

During the past fiscal year U. S. Shelter Corporation ("Shelter") was organized as a wholly-owned subsidiary of the Company to provide interim and long-term financing services to purchasers

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of the Company's modular housing. Under Section 236 of the National Housing Act, the Federal Housing Administration ("FHA") may insure a mortgage, held by a qualified mortgagee, which is equal in principal amount to 100% of the costs of a project incurred by a qualified non-profit mortgagor-sponsor. The FHA has approved Shelter as a qualified mortgagee. Where a Company's customer desires financing to cover the costs of acquiring land, purchasing and installing the modules, and preparing the site, Shelter will agree to supply temporary funds and to provide permanent mortgage financing after it has obtained a commitment from the FHA to insure the permanent mortgage, secured another form of federal assistance, or arranged for permanent financing from private institutional sources. Upon obtaining such a commitment, Shelter will borrow the funds necessary for interim financing from private institutional sources, and lend such funds to the Company's customer. Shelter's borrowings will not be guaranteed by the Company. For its services, Shelter charges a fee which is based on the principal amount of the permanent mortgage.

Shelter has been given approval to sell mortgages to, and buy mortgages from, the Federal National Mortgage Association and the Government National Mortgage Association. During the seven months ended February 28, 1971 Shelter's earnings were derived from the accrual of fees aggregating \$300,000, which will not be received until the mortgages close.

Financing Sales to Non-Profit Sponsors

The Company has made sales to, or received orders (subject to federal approval) from, non-profit sponsors in New York, Mississippi, Ohio, Indiana, Massachusetts, West Virginia and Maine. Section 236 of the National Housing Act provides indirect rental assistance to eligible low and moderate income families through periodic interest reduction payments by HUD to the mortgagee in amounts which effectively serve to reduce the mortgagor's obligation to the repayment of principal plus 1% interest. Section 236 housing developments are also eligible for rent supplement payments by HUD to the non-profit sponsor for up to 40% of the dwellings in the development when rents are less than the amounts required to meet debt service and operating expenses.

Legal Proceedings

Homasote Company has alleged that the Company is wrongfully using the word "Homex" in its name on the ground that the use constitutes a violation of the registered trade name "Homex", which Homasote holds on pre-molded wood-fiber strips for use as expansion joint fillers in concrete and masonry construction. The Company has denied the claim and, in August 1969, brought an action against Homasote in the United States District Court, Western District of New York, for a declaratory judgment that it may continue to use the word "Homex". In the same court, Homasote then brought an action to enjoin the use by the Company of the word "Homex", for an accounting and for unspecified damages. In the opinion of the Company, there are valid defenses to the claims alleged.

The Company is a defendant in an action commenced in the United States District Court, Southern District of New York in March 1971. The plaintiff, a former stockholder of the Company, alleges that he suffered \$1,575,000 in damages by reason of an alleged conspiracy between the Company and a co-defendant broker to force plaintiff to sell 90,000 shares of the Company's Common Stock at a price substantially below its alleged market value. The shares of Common Stock of the Company owned by the plaintiff were not registered under the Securities Act of 1933 and were represented to have been acquired for investment in August 1968. The plaintiff has also asked for treble damages. In the opinion of the Company, it has valid defenses to the claims alleged.

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Competition

The Company's principal customers are local housing authorities and non-profit sponsors. The usual practice for a local housing authority is to entertain competing proposals. The major factors which affect a customer's decision include price, design and quality of product, responsibility of the builder and speed with which a project may be completed.

The Company must compete with numerous conventional builders, many of which possess much greater resources than the Company. In addition, conventional methods have a greater acceptance with many developers and housing authorities. The Company believes, however, that its manufactured housing is competitive in price and quality with conventional housing. There are other companies, some of which possess much greater resources than the Company, that have announced their intention to use, and may be using, an assembly-line manufacturing technique similar to that used by the Company, or which are actively engaged in research into such technique.

PROPERTIES**Avon Facilities**

The Company's principal office and factory are located on 57 acres of land owned by it in Avon, New York. They consist of a brick and steel office building and an adjoining concrete block factory having an aggregate area of about 140,000 square feet. The original plant was erected in 1967, and a 75,000 square foot addition was completed in 1970.

In 1969, the Company purchased a one story steel and masonry building containing approximately 48,000 square feet and five acres of land in Avon near its main location. It is used to manufacture components for the housing modules, and contains offices and classrooms used in the Company's education program.

During 1970 the Company constructed a four story prototype modular high-rise building adjacent to its Avon plant and an observation center, containing the electronic controls for the hydraulic jacks, from which the high-rise system may be viewed and studied. See "Business—The High-Rise".

Mississippi Plant

Construction of a manufacturing plant in Gulfport, Mississippi, capable of producing 100 finished modules per day upon completion, is expected to be commenced in July 1971. It is anticipated that the facility will be 350,000 square feet in area and will employ approximately 2,000 persons. Capital expenditures in connection with the plant are expected to be approximately \$4,900,000. In a contract with the Company, Harrison County (where the plant site is located) has agreed to take the steps necessary to authorize the issuance and sale of tax exempt industrial revenue bonds in an amount up to \$4,900,000, and to use the proceeds to meet the cost of constructing and equipping the plant. If such sale is not consummated, the Company will arrange to finance the cost of the facility itself.

On March 17, 1971, the Company leased 100 acres on which the facility is to be located from Harrison County and its Development Commission under a 30-year lease providing for a rental of \$36,325 per annum, with 60 one-year renewal options at an annual rental of \$25,000. The lease gives the Company an option to purchase the land and the facility at the end of the initial term and each

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renewal term for \$100. If the bonds are sold, the Company will pay, as additional rent, all amounts necessary to pay principal and interest on the bonds when due. The Company has the option until December 31, 1974 to lease an additional 200 acres adjacent to the plant site for a term of 30 years at an annual rental of \$72,650. The Company is obligated to pay at the rate of \$5,000 per month for the option right, which will not be applied to the purchase price. The lease will contain certain renewal options and options to purchase the property.

The Company plans to produce both its townhouse and high-rise modules at Gulfport. This facility will have its own rail spur and loading dock.

MANAGEMENT

The directors and officers of the Company are:

Name	Office
David Stirling, Jr.*	Chairman of the Board of Directors and Chief Executive Officer
William G. Stirling*	President and Director
Harold M. Yanowitch*	Executive Vice President, General Counsel and Director
E. A. Bartz	Vice President and Secretary
Frank Csapo	Vice President-Manufacturing
Gary L. Hammons	Vice President-Real Estate and Installation Division
Herman D. Hillman	Vice President
Victor G. Pappas	Vice President-Personnel
Arthur E. Rosfeld	Vice President-Program Planning
Edwin J. Schulz	Vice President and Controller
David Stirling, Sr.	Vice President and Director
Carl L. Wren	Vice President-Market Research
Paul M. Kuveke, Jr.	Treasurer
C. W. Marshall	President, U.S. Shelter Corporation and Director
Reuben K. Davis	Vice President and Assistant Secretary
Theodore W. Kheel	Director
John W. Castellucci	Director

* Member of Executive Committee.

Prior to organizing the Company in July 1968, David Stirling, Jr., William G. Stirling, David Stirling, Sr. and Frank Csapo had been officers of Stirling Bros., Inc., a multi-family housing development and operating company, since its organization in 1962.

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Harold M. Yanowitch had been engaged in the practice of law for more than 20 years before joining the Company in 1969. Prior to joining the Company, Mr. Yanowitch was a senior partner in the law firm of Yanowitch, Frank & Garrity.

E. A. Bartz was Controller of Stirling Bros., Inc. from 1966 to August 1968 when he joined the Company as Treasurer. Prior to 1966 Mr. Bartz was Controller of a real estate investment company for twelve years.

Gary L. Hammons joined the Company in 1970. For more than five years prior thereto he was with the Kroger Company as vice president—property.

Prior to joining the Company in 1970, Herman D. Hillman directed the U. S. Department of Housing and Urban Development's programs of the Housing Assistance Administration (low-rent, college and senior citizens) in the New York and New England states. Mr. Hillman, a lawyer, first joined the Legal Staff of the U. S. Housing Authority in 1939.

Victor G. Pappas has been with the Company since 1969. Prior thereto, for more than three years, he was Corporate Director of Personnel for a subsidiary of The Singer Company.

Arthur E. Rosfeld joined the Company in 1969. During the previous year he was employed as Acting Deputy Assistant Secretary for the Housing Assistance Administration of HUD. From May 1967 to September 1969, Mr. Rosfeld also served as the Director of the Operational Services Division of the Regional Housing Administration of HUD and from September 1966 with the Assistant Secretary for Renewal and Housing Assistance. During the two years prior thereto, Mr. Rosfeld worked as a private consultant on urban affairs.

Edwin J. Schulz joined the Company in 1968, after leaving his position as senior systems analyst of Armstrong Cork Co., Inc., a manufacturer of building products where he had been employed since prior to 1964.

Carl L. Wren has directed the Company's market research activities since its inception in July 1968. For more than three years prior thereto, he was with Stirling Bros., Inc.

Paul M. Kuveke, Jr. joined the Company in 1970. From 1967 to 1970 Mr. Kuveke, a certified public accountant, was associated with Irving Trust Company and for the six previous years, he was associated with a firm of certified public accountants.

C. W. Marshall, for more than 20 years prior to joining the Company in 1970, was a senior officer of Central Trust Company, Rochester, New York.

Reuben K. Davis joined the Company in 1969. A lawyer, Mr. Davis previously had been a public official in the City of Rochester for more than three years.

Since 1949, Theodore W. Kheel has been a member of the law firm of Battle, Fowler, Stokes & Kheel and has served as a mediator and arbitrator of labor disputes for approximately 30 years. Mr. Kheel is also a director of Western Union Telegraph Company, Athlone Industries, Inc., Combustion Equipment Associates, Inc. and the Republic National Bank of New York, of which he is also Chairman of the Board of Directors.

Since prior to 1964 John W. Castellucci has been employed by the National Association of Blue Shield Plans, a trade association of medical insurance companies. He has been President since 1967 and served as Executive Vice President prior thereto.

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The following table sets forth the remuneration for the fiscal year ended July 31, 1970 of each director and the three highest paid officers of the Company whose remuneration for the year from the Company and its subsidiaries exceeded \$30,000, and all directors and officers as a group:

<u>Name</u>	<u>Capacity in Which Remuneration was Received</u>	<u>Aggregate Direct Remuneration</u>
David Stirling, Jr.	Chairman of the Board and Chief Executive Officer	\$ 75,557
William G. Stirling	President and Chief Operating Officer	\$ 75,557
Harold M. Yanowitch	Executive Vice President and General Counsel	\$ 70,653
Richard E. Karkow(1)	Executive Vice President and Treasurer	\$ 63,750
David Stirling, Sr.	Vice President	\$ 44,984
All Directors and Officers as a Group (11 Persons)		\$498,310(2)

(1) Mr. Karkow left the employ of the Company in February 1971.

(2) The law firm of which Mr. Kheel is a member received \$50,000 during the year ended July 31, 1970 for services rendered, which amount is not included in the above figure.

Currently, the Company is paying annual salaries of \$125,000 each to David Stirling, Jr. and William G. Stirling and \$100,000 to Harold M. Yanowitch. There are employment agreements terminating in September 1974 with these persons and with David Stirling, Sr., who is receiving an annual salary of \$45,000.

ORGANIZATION AND CERTAIN TRANSACTIONS

At the time of the Company's organization Messrs. David Stirling, Jr., William G. Stirling, David Stirling, Sr. and Harper Sibley, Jr. received directly or through corporations which they controlled, an aggregate of 6,400,000 shares of Common Stock of the Company in return for the land, building and manufacturing facilities in Avon, a patent application, processes and know-how relating to the assembly-line manufacture of housing, \$6,000 in cash and the outstanding stock of three corporations in the land and housing development business. The stock of the three corporations and the physical assets acquired had a net aggregate book value of \$111,627 as determined by the accountants for the Company. The land, building and manufacturing facilities had been purchased or constructed by the founders of the Company at a total cost to them of approximately \$400,000, subject to liabilities of approximately \$300,000, and they had paid approximately \$11,000 for the stock of the three corporations.

In June 1969 the Company issued and sold to Harold M. Yanowitch 100,000 shares and to Theodore W. Kheel and designees 200,000 shares of its Common Stock at \$1.00 per share, and on August 11, 1969 issued and sold to Richard E. Karkow, then an officer and director, 100,000 shares at \$1.00 per share. In March 1971, the Company repurchased 60,000 of Mr. Karkow's shares for \$180,000.

In 1970 and 1971 the Company advanced \$287,563 for the purchase of building materials for the use of David Stirling, Jr., all of which has been repaid by Mr. Stirling. In 1970 the Company loaned \$57,500 to Gary L. Hanumons, \$34,228 of which has been repaid.

The Company has used the services of Johnston Paviour Sibley, Inc., an insurance broker, in the purchase of its insurance policies and has paid \$205,367 in premiums to such agency since August 1968. Harper Sibley, Jr., a director of the Company until February 1971, and an owner of more than 10% of its outstanding shares of Common Stock, was an officer, director and principal stockholder of such corporation which received commissions on such insurance purchases at the established rates.

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In 1969 a subsidiary of the Company sold land to, and developed a modular housing complex in Clay, New York for a limited partnership, of which Messrs. David Stirling, Jr. and William G. Stirling were limited partners, holding in the aggregate one-sixth of the partnership interest. A corporation controlled by Harper Sibley, Jr. made a construction loan of \$2,900,000 in connection with such complex, which loan has been repaid. The project has been completed and a total of approximately \$3,766,000 was paid for the modules and services provided.

In 1969 the Company and a subsidiary completed the final portion of construction work on a modular housing development in Henrietta, New York, known as Fairways, Phase I, for a partnership, of which Messrs. David Stirling, Sr., David Stirling, Jr., William G. Stirling and Harper Sibley, Jr. were partners. Approximately \$919,000 was received for such work.

In 1969 the Company and a subsidiary completed performance of a contract for the sale and erection of modules which had been entered into with a corporation, all the stock of which is owned by David Stirling, Jr., William G. Stirling and Harold M. Yanowitch. The work was done at a site in Avon, New York for a price of approximately \$443,000.

Under a contract entered into in 1967 with a corporation, all of the stock of which is held by a corporation which was controlled by Messrs. David Stirling, Sr., David Stirling, Jr., William G. Stirling and Harper Sibley, Jr., a subsidiary of the Company did the on-site construction work at a mobile home park in Clay, New York, owned by such corporation. The subsidiary received approximately \$1,394,000 for such work.

In March 1969 a subsidiary of the Company purchased land from a corporation all the stock of which is owned by David Stirling, Jr., William G. Stirling, David Stirling, Sr. and Harper Sibley, Jr. for \$123,500 and sold it to such corporation in July 1969 for \$128,862 (representing initial costs and improvements).

The Company considers the amounts received by it in the above-described transactions in line with amounts customarily charged for similar products and services.

STOCK OPTION PLAN

The Company has a qualified Stock Option Plan under which, as of February 23, 1971, a total of 890,000 shares of Common Stock were reserved for issuance upon the exercise of options granted or to be granted under the Plan (subject to adjustment for stock splits, stock dividends or any similar change affecting the Common Stock). The options are intended to be "qualified stock options" within the meaning of Section 422 of the Internal Revenue Code. The option price in each instance is 100% of the fair market value of the Common Stock on the date the option is granted, and options expire five years from the date of grant.

In October 1969, Harold M. Yanowitch was granted qualified stock options to purchase 25,000 shares for \$3.00 a share. Since the adoption of the Plan and through February 23, 1971, all directors and officers as a group have been granted options to purchase 195,000 shares at prices ranging from \$3.00 to \$18.00 per share, and in addition, other key employees have been granted options to purchase 328,800 shares at prices ranging from \$3.00 to \$19.75 per share. An officer of the Company has exercised options to purchase 2,000 shares for an aggregate exercise price of \$6,000. The shares had an aggregate market value on the dates of purchase of \$42,775. See Note 10 of Notes to Consolidated Financial Statements.

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PRINCIPAL STOCKHOLDERS

Set forth below is certain information as of February 28, 1971, with respect to the beneficial ownership of Common Stock of the Company by each person who owns of record or is known by the Company to own beneficially more than 10% of the outstanding Common Stock of the Company.

<u>Name and Address</u>	<u>Shares of Common Stock Owned</u>	<u>Percent of Outstanding Common Stock</u>
David Stirling, Jr.* 1150 East River Road, Avon, New York	1,934,452	21.7%
William G. Stirling* 1150 East River Road, Avon, New York	1,944,548	21.8
Harper Sibley, Jr.* 200 S.E. First Street Miami, Florida	930,923	10.5
All directors and officers as a group (13 persons)*	4,763,008	53.5

* Includes shares owned beneficially by members of the families of such stockholders.

David Stirling, Jr., William G. Stirling and David Stirling, Sr. may be considered to be "parents" of the Company as that term is defined in the regulations under the Securities Act of 1933.

DESCRIPTION OF CAPITAL STOCK

Common Stock

Holders of shares of Common Stock are entitled to receive such dividends as may be declared by the Board of Directors from funds legally available therefor and, upon liquidation, are entitled to share pro rata in any distribution to stockholders. The holders of shares of Common Stock have one vote per share and do not have preemptive or cumulative voting rights. Shares of Common Stock are not redeemable and do not have conversion rights and are not liable to assessment or further calls by the Company.

The Company furnishes stockholders with annual reports which contain audited financial statements.

The Transfer Agent and Registrar for the Common Stock of the Company are Chemical Bank and Chase Manhattan Bank, N.A., respectively.

Preferred Stock

Up to 500,000 shares of preferred stock, par value \$1.00 per share, may be issued from time to time in series with such series designation, number of shares in the series, relative rights, preferences and limitations as the Board of Directors of the Company may determine. Among the determinations to be made by the Board for each series would be (a) the dividend rate, and whether dividends would be cumulative; (b) conversion rights, if any, and the terms of any conversion; (c) the voting rights, if any; and (d) the right of the Company to redeem such shares, and the terms of any redemption. Holders of preferred stock would not have preemptive rights.

No preferred stock has been issued and no plans have been made for any such issuance.

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UNDERWRITING

The Underwriters named below, acting through their Representative, Merrill Lynch, Pierce, Fenner & Smith Incorporated, have severally agreed, subject to the terms and conditions of the Purchase Agreement, to purchase from the Company and the selling stockholder, R. W. Pressprich & Co. Incorporated ("Pressprich") the number of shares of Common Stock set forth opposite their respective names. The Underwriters are committed to purchase all of such shares if any are purchased. Under certain circumstances the commitments of non-defaulting Underwriters may be increased. In the event of default by Pressprich, less than all of the shares of Common Stock may be sold.

<u>Name of Underwriter</u>	<u>Address of Underwriter</u>	<u>Number of Shares to be Purchased</u>
Merrill Lynch, Pierce, Fenner & Smith Incorporated	70 Pine Street New York, N. Y. 10005	

Total 1,025,000

The Representative of the Underwriters has advised the Company that sales of Common Stock to certain dealers may be made at a concession of \$ per share and that the Underwriters may allow, and such dealers may reallow, discounts not in excess of \$ per share on sales to certain other dealers.

Prior to this offering, Pressprich owned of record and beneficially 93,400 shares of the Company's Common Stock. After the completion of this offering, Pressprich will own of record and beneficially 68,400 shares. Pressprich acquired the 25,000 shares of Common Stock being offered hereby in connection with the public offering of Common Stock made by the Company and certain other selling stockholders in February 1970 at the then public offering price of \$16.50 per share. The foregoing amounts do not include shares of the Company's Common Stock held by Pressprich in its trading account pursuant to its activities as a market maker in such stock. The Company agreed to include the 25,000 shares so purchased by Pressprich in a subsequent registration statement filed under the Securities Act of 1933 without cost to Pressprich.

Pressprich as well as the officers and directors of the Company have agreed that, during the period of 90 days from the date of this Prospectus, they will not, without the consent of the Representative of the Underwriters, directly or indirectly, sell, grant any option for the sale of or otherwise dispose of any Common Stock of the Company owned by such persons, except for sales by Pressprich after completion of the distribution pursuant to its market making activities.

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LEGAL OPINIONS

The legality of the Common Stock offered hereby is being passed upon for the Company by Shea Gallop Climenko & Gould, 330 Madison Avenue, New York, New York 10017, for the selling stockholder by Winthrop, Stimson, Putnam & Roberts, 40 Wall Street, New York, New York 10005, and for the Underwriters by Brown, Wood, Fuller, Caldwell & Ivey, 70 Pine Street, New York, New York 10005. A member of Shea Gallop Climenko & Gould participating in this matter and his family beneficially own an aggregate of 600 shares of Common Stock of the Company.

EXPERTS

The financial statements and schedules included herein and elsewhere in the Registration Statement, so far as they pertain to the two years ended July 31, 1970 and the seven month period ended February 28, 1971, have been included herein and in the Registration Statement in reliance upon the respective reports of Peat, Marwick, Mitchell & Co., and Harris, Kerr, Forster & Company, independent certified public accountants, and upon the authority of said firms as experts.

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ACCOUNTANTS' REPORTS

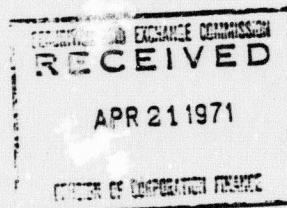
THE BOARD OF DIRECTORS
STIRLING HOMEX CORPORATION:

We have examined the consolidated balance sheet of Stirling Homex Corporation and consolidated subsidiaries as of February 28, 1971 and the related statements of income, retained earnings, additional paid-in capital and source and application of funds for the seven months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the consolidated financial position of Stirling Homex Corporation and consolidated subsidiaries at February 28, 1971, and the results of their operations and source and application of funds for the seven months then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Peat Marwick Mitchell & Co.
PEAT, MARWICK, MITCHELL & CO.

Rochester, New York
March 22, 1971



THE BOARD OF DIRECTORS
STIRLING HOMEX CORPORATION:

We have examined the consolidated statements of income, retained earnings, additional paid-in capital and source and application of funds of Stirling Homex Corporation and consolidated subsidiaries for the two years ended July 31, 1970. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the consolidated results of operations, changes in additional paid-in capital and source and application of funds, of Stirling Homex Corporation and consolidated subsidiaries, for the two years ended July 31, 1970, in conformity with generally accepted accounting principles applied on a consistent basis.

James K. Forster
HARRIS, KERR, FORSTER & COMPANY

New York, New York
September 21, 1970

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STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

February 28, 1971

ASSETS

Current assets:

Cash	\$ 5,059,564
Receivables (Notes 3 & 4)	27,510,210

Inventories:

Raw materials and work in process at lower of standard cost or replacement market (Note 5)	974,660
Land held for development or sale, at cost (Notes 4 & 5) ..	1,183,402
Prepaid expenses and other current assets	439,259
Total current assets	<u>35,167,095</u>
Investment in and advance to unconsolidated subsidiary (Note 1) ..	222,333
Long-term receivables (Note 4)	1,629,497
Property, plant and equipment at cost, less accumulated depreciation and amortization of \$449,950 (Notes 6 & 8)	3,779,439
Deferred charges, less accumulated amortization of \$367,718 (Note 7) ..	<u>1,978,987</u>

\$47,777,351

See accompanying Notes to Consolidated Financial Statements.

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LIABILITIES and STOCKHOLDERS' EQUITY

Current liabilities:

Current portion of long-term debt (Note 8)	\$ 314,588
Notes payable to banks—unsecured (6¼-7½%)	29,700,000
Accounts payable—trade	2,206,633
Accrued interest	280,929
Accrued expenses and other liabilities	263,041
Deferred income taxes (Note 9)	129,439

Total current liabilities	<u>32,894,630</u>
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Long-term debt (Note 8)	352,877
Deferred income taxes (Note 9)	1,238,531

Stockholders' equity:

Preferred stock:

Authorized 500,000 shares—\$1.00 par value; issued—none	—
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Common stock (Note 10):

Authorized 15,000,000 shares—\$.01 par value; issued 8,907,400 shares	89,074
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Additional paid-in capital	8,476,638
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Retained earnings	4,725,601
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Total stockholders' equity	<u>13,291,313</u>
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Commitments and contingencies (Note 11)

	<u>\$47,777,351</u>
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STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF ADDITIONAL PAID-IN CAPITAL

	Year Ended		Seven Months Ended
	July 31, 1969	July 31, 1970	February 28, 1971
Balance at beginning of period	\$ —	\$1,949,813	\$8,446,738
Excess of proceeds over par value of 400,000 shares of common stock issued in public offering (less net expenses of \$118,285)	—	5,981,715	—
Excess of proceeds over par value of shares of common stock issued in private sales (less applicable expenses) (1970--129,000 shares; 1969--1,968,400 shares)	1,910,949	515,210	—
Stock issued at par for cash, patents, copyrights and processes (the last three carried at \$1) 1969--2,400,000 shares	—	—	—
Excess of book value of assets acquired over par value of 4,000,000 shares of common stock issued (Note 1)	101,627	—	—
To increase par value of common stock outstanding as a result of four-for-one stock split	(62,763)	—	—
Excess of proceeds over par value of 10,000 common shares issued under stock options (Note 10)	—	—	29,900
Balance at end of period	<u>\$1,949,813</u>	<u>\$8,446,738</u>	<u>\$8,476,638</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Balance at beginning of period	\$ —	\$1,082,481	\$3,117,670
Net income	<u>1,082,481</u>	<u>2,035,189</u>	<u>1,607,931</u>
Balance at end of period	<u>\$1,082,481</u>	<u>\$3,117,670</u>	<u>\$4,725,601</u>

See accompanying Notes to Consolidated Financial Statements.

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STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year Ended		Seven Months Ended
	July 31, 1969	July 31, 1970	February 28, 1971
Source of funds:			
Net income	\$1,082,481	\$2,035,189	\$ 1,607,931
Charges to income not requiring funds:			
Depreciation and amortization	70,085	220,227	220,227
Amortization of deferred charges	34,002	133,288	200,428
Deferred income taxes	402,489	184,776	651,266
Undistributed net income of finance subsidiary (Note 1)	—	—	(104,928)
Funds derived from operations	1,589,057	2,573,480	2,574,924
Net proceeds from public offering of common stock ...	—	5,985,715	—
Net proceeds from private sale of common stock	1,921,870	516,500	—
Net proceeds from common stock issued under qualified stock option plan	—	—	30,000
Long-term borrowings	2,549,534	124,677	51,286
Decrease in long-term receivables	—	43,421	—
Total source of funds	<u>6,060,461</u>	<u>9,243,793</u>	<u>2,656,210</u>
Application of funds:			
Additions to property, plant and equipment	702,932	4,422,506	3,753,921
Additions to deferred charges	376,306	735,093	1,235,306
Reduction in long-term debt	164,700	3,052,140	194,898
Increase in non-current portion of long-term receivables	584,546	—	1,088,373
Increase in investment and advances to unconsolidated subsidiary	—	—	117,405
Total application of funds	<u>1,828,484</u>	<u>8,209,739</u>	<u>6,389,903</u>
Increase (decrease) in working capital	<u>\$4,231,977</u>	<u>\$1,034,054</u>	<u>\$(3,733,693)</u>

See accompanying Notes to Consolidated Financial Statements.

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STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION

The Company was incorporated on July 22, 1968 and commenced operations on August 1, 1968. In connection with its organization, the Company issued 4,000,000 shares of its common stock for the outstanding stock of certain predecessor companies. This transaction has been treated as a purchase and the results of operations of these companies have been included in the consolidated statement of income from the date of acquisition. The value ascribed to the stock issued was equal to the tangible net assets of these companies.

The consolidated financial statements include the accounts of the Company and its subsidiaries except for U.S. Shelter Corporation, its financing subsidiary (all of which are wholly-owned). The Company carries its investment in all subsidiaries at equity in the underlying net assets. On consolidation, all significant accounts and transactions with consolidated subsidiaries have been eliminated.

The following are condensed financial statements of the unconsolidated financing subsidiary:

BALANCE SHEET

February 28, 1971

ASSETS	
Cash and accounts receivable	\$327,898
Other assets	11,167
	<u>\$339,065</u>
LIABILITIES AND STOCKHOLDER'S EQUITY	
Payables and accrued expenses (primarily income taxes payable)	\$116,732
Due to parent company	17,405
Stockholder's equity	204,928
	<u>\$339,065</u>

STATEMENT OF INCOME

From date of incorporation (September 25, 1970) to February 28, 1971

Finance income	\$300,000
General and administrative expenses	83,072
	<u>216,928</u>
Income taxes	112,000
NET INCOME	<u>\$104,928</u>

The subsidiary has obtained an unsecured \$15,000,000 line of credit from a bank. These funds will be used in financing transactions involving customers of the Company. The Company has not guaranteed this line of credit.

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STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2. CHANGES IN ACCOUNTING PRINCIPLES

During the year ended July 31, 1970, the Company changed its method of recording the installation portion of sales contracts from the completed contract method to the percentage-of-completion method. Although this change had no significant effect on results of operations for fiscal years 1969 and 1970, such results have been retroactively restated to provide consistent application of this change.

3. RECEIVABLES

The Company enters into various modular housing sale contracts which contain an allocation of the sales price between modules (based upon published price lists) and installation work. The contracts generally provide for payment upon completion and receipt of all approvals necessary for occupancy or payment upon completion of each respective phase. Sales of modules are recognized when units are manufactured and assigned to specific contracts. Installation work is recorded on the percentage-of-completion method.

Receivables at February 28, 1971 consist of:

Contract receivables:		
Billed	\$ 7,801,602	
Unbilled	18,888,192	
Total		\$26,689,794
Current portion of long-term receivables (Note 4)		537,975
Other receivables		262,441
Total receivables		<u>\$27,510,210</u>

Substantially all sales are to local housing authorities and sponsors who qualify for financial assistance from Federal agencies of the U. S. Government. In light of this, no provision for doubtful accounts is considered necessary.

4. LONG-TERM RECEIVABLES

Long-term receivables at February 28, 1971 consist of:

Mortgages receivable:	
Mortgage due June 1, 1974—payments of \$2,500 due quarterly with interest at the prime commercial rate in effect on the interest payment date (see a. below)	\$ 249,124
Mortgage due June 30, 1975—payments of \$25,000 due June 30, 1973 and June 30, 1974 and the balance due June 30, 1975. Interest payable annually at the prime commercial rate in effect on the interest payment date (see a. below)	302,000
Land contract receivable, net of unearned interest of \$253,632 (see b. below)	1,636,348
	<u>2,187,472</u>
Less installments due within one year, net of unearned interest of \$94,950	537,975
	<u>\$1,629,497</u>

a. During the year ended July 31, 1969, a subsidiary of the Company sold two parcels of land for a total of \$750,000 which is included in "Sales-Trade" in the Consolidated Statement of Income. The sales accounted for approximately 18% of the Company's net income for the year. Payment of the purchase price is secured by the mortgages enumerated in the table above.

b. During the seven months ended February 28, 1971, a subsidiary of the Company sold a parcel of land for an aggregate contract price of \$2,100,000. \$1,822,723 is included in "Sales-Trade" and the balance of \$277,277 has been treated as imputed interest and will be recognized as income as it is earned during the payment period. The sale accounted for approximately 35% of the Company's

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STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

net income for the period. The contract provides for a \$210,000 down payment, which was paid, and minimum semi-annual payments of \$25,000 each beginning June 30, 1971 to December 30, 1975, on which date the remaining balance is due. After December 30, 1972, interest will be payable on the unpaid balance at the rate of 4%. The contract provides that ten acres of the land subject thereto will be conveyed to the purchaser, a corporation whose principal asset is its interest in the contract, to allow the application for an institutional loan for construction in accordance with the proposed program of the purchaser for development of the property, without any additional payment by the purchaser, and for the conveyance of additional portions of the land upon payment by the purchaser of \$18,585 for each acre conveyed. The minimum semi-annual payments are a credit against the release price for acreage. The contract provides for a credit against the purchase price consisting of a portion of the award to be received by the subsidiary in pending proceedings to determine the award for the condemnation by the State of New York of certain land contiguous to the land which is subject to the contract.

5. INVENTORIES

(a) Inventories of the Company consisted of the following:

	July 31, 1969	July 31, 1970	Feb. 28, 1970 (unaudited)	Feb. 28, 1971
Saleable merchandise	\$ 653,872	\$1,064,408	\$1,274,540	\$ —
Work in process	12,000	139,531	45,000	241,417
Raw materials	471,427	963,664	688,515	733,243
Total	<u>\$1,137,299</u>	<u>\$2,167,603</u>	<u>\$2,008,055</u>	<u>\$974,660</u>

(b) Land held for development or sale is recorded at its initial cost plus real estate taxes, mortgage interest and other related carrying costs.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at February 28, 1971 consisted of the following:

Land and land improvements	\$1,066,654
Buildings	4,433,229
Machinery and equipment	1,370,419
Furniture, fixtures and office equipment	685,223
Other	92,171
Construction in progress	1,581,693
	<u>9,229,389</u>
Less accumulated depreciation and amortization ..	<u>449,950</u>
	<u>\$8,779,439</u>

Buildings are depreciated on the straight-line method over an estimated useful life of forty-five years. All other items are depreciated on the straight-line method over estimated useful lives ranging from one to twenty years. Maintenance and repairs are charged to expense as incurred. Renewals and betterments are capitalized. When properties are retired, sold or otherwise disposed of, the cost and the related accumulated depreciation and amortization is removed from the accounts, and gains and losses resulting from such transactions are reflected in income.

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STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

7. DEFERRED CHARGES

The unamortized balances of deferred charges at February 28, 1971 consist of:

	Amortization Period	Unamortized Balance
Patents pending and trademarks	Legal life	\$ 123,508
Training and professional development	3 years	314,356
Research and development	5 years	331,880
Project and production start-up costs	2 to 5 years	880,091
Property acquisition costs	(a)	221,057
Miscellaneous	1 to 5 years	58,095
		<u>\$1,978,987</u>

(a) Expenditures in connection with property acquisition will be added to the cost of property subsequently acquired.

In the event of project abandonment or other circumstances causing a loss of value to deferred items, the related unamortized costs are charged to current operations.

8. LONG-TERM DEBT

As of February 28, 1971, long-term debt consisted of the following:

Mortgages maturing at various dates through December 31, 1976 and bearing interest at rates ranging from 4 3/4% to 6%	\$541,594
Installment contracts and lease purchase agreements maturing at various dates through August, 1974 ..	125,871
	<u>667,465</u>
Less payments due within one year	314,588
	<u>\$352,877</u>

Land, buildings and equipment with a net book value of \$1,684,000 were encumbered under the above agreements.

The required principal payments on long-term debt for the next five years ended February 28 are as follows:

1973	\$212,936
1974	85,845
1975	23,278
1976	17,330
1977	3,488

9. INCOME TAXES

Deferred taxes relate principally to depreciation, deferred and capitalized costs, installation contracts and installment sales. None of the Company's tax returns have been examined by the Internal Revenue Service.

10. STOCK OPTIONS

The Company has a qualified stock option plan in effect whereby options to purchase shares of common stock may be granted to officers and key employees at not less than the fair market value on the date of grant. During the seven month period ended February 28, 1971, authorized shares under the plan were increased from 400,000 to 900,000 shares. Options expire five years after the date of grant and are exercisable in cumulative installments of 20% after one year. A summary of activity follows:

Government's Exhibit 8

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(1) Options outstanding at February 28, 1971:

Period Granted	Shares (Net of Cancellations)	Option & Market Price at Grant Per Share		Total
		From	To	
Year ended July 31, 1970	341,800	\$ 3.00	\$16.50	\$2,997,100
Seven months ended February 28, 1971 ...	172,000	15.50	19.75	2,996,750
	<u>513,800</u>			<u>\$5,993,850</u>

	Seven Months Ended February 28, 1971	
	Option price	Market value
(2) Shares for which options first became exercisable ..	53,760 shares	
Total option price and market value at dates options became exercisable	\$396,720	\$1,163,807
Range per share	\$3.00 to \$16.50	\$18.75 to \$23.75
(3) Shares for which options were exercised	10,000 shares	
Total option price and market value at dates options exercised	\$ 30,000	\$ 198,692
Range per share	\$3.00	\$18.00 to \$21.50

No entries are recorded with respect to options until exercised at which time the excess of the option price over the par value of common stock issued is credited to paid-in surplus.

11. COMMITMENTS AND CONTINGENCIES

An action has been brought to enjoin the use of the word "Homex" by the Company. In the opinion of legal counsel for the Company the plaintiff will be unsuccessful in obtaining the relief which it seeks.

On January 21, 1970, the State of New York asserted a proposed deficiency in sales and use taxes against the Company in the aggregate net amount of \$147,233 excluding penalties and interest. A protest to this proposed deficiency was filed on May 21, 1970, and in the opinion of legal counsel there appears to be a valid defense against the claim.

A complaint was served on March 2, 1971 in an action against the Company and another party, a broker, to recover damages allegedly suffered by a former shareholder of restricted shares of Company common stock. It is claimed that the Company refused, in concert with the other party, to permit the transfer of plaintiff's stock except at a price substantially below market. Compensatory damages in the amount of \$1,575,000 and treble damages are alleged. In the opinion of management, the suit can be successfully defended. In the opinion of counsel, the claim for treble damages is without merit.

The Company is committed to construct a new manufacturing facility. See "Properties—Mississippi Plant".

At February 28, 1971, the Company had leases on various equipment and office facilities with terms ranging from two to six years. Minimum annual rentals under such leases amount to approximately \$390,000.

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STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

12. SUPPLEMENTARY PROFIT AND LOSS INFORMATION:

	Year ended July 31, 1969	Year ended July 31, 1970	Seven months ended February 28, 1971
Maintenance and Repairs:			
Cost of sales	\$ 22,221	\$ 84,386	\$122,826
Other	257	8,479	21,007
	<u>22,478</u>	<u>92,865</u>	<u>143,833</u>
Depreciation and Amortization:			
Cost of sales	67,985	193,804	145,936
Other	2,100	26,423	74,291
	<u>70,085</u>	<u>220,227</u>	<u>220,227</u>
Amortization of Deferred Charges:			
Cost of sales	—	—	—
Other	34,002	133,288	200,428
	<u>34,002</u>	<u>133,288</u>	<u>200,428</u>
Taxes Other than Taxes on Income:			
Payroll taxes:			
Cost of sales	89,846	187,190	181,765
Other	7,540	26,757	78,448
Land cost	476	—	—
	<u>97,862</u>	<u>213,947</u>	<u>260,213</u>
Property Taxes:			
Cost of sales	6,347	18,594	7,502
Other	—	7,731	16,952
Land cost	18,452	23,762	43,648
	<u>24,799</u>	<u>50,137</u>	<u>68,102</u>
Rents:			
Cost of sales	3,386	76,528	120,253
Other	11,445	112,389	321,974
	<u>14,831</u>	<u>189,417</u>	<u>442,227</u>

There were no management fees, service fees or royalties paid during the above periods.

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1,025,000 Shares

Stirling Homex Corporation

Common Stock
(Par Value \$.01 Per Share)

PROSPECTUS

Merrill Lynch, Pierce, Fenner & Smith
Incorporated

May , 1971

Government's Exhibit 8

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 22. Marketing Arrangements.

Reference is made to "Underwriting" in the Prospectus and to Sections 3 and 8 of the Agreement Among Underwriters, Section 1 of the Purchase Agreement and the eighth paragraph of the Selected Dealers Agreement, each being filed as Exhibit 1 to this Registration Statement.

Item 23. Other Expenses of Issuance and Distribution.

The expenses in connection with the issuance and distribution of securities being registered, which will be borne by the Company, other than underwriting discounts and commissions, are estimated as follows:

Registration fee	\$ 5,125
NASD filing fee	2,663
Printing	*
Accounting fees and expenses	*
Legal fees and expenses	*
Blue Sky fees and expenses	*
Transfer Agent and Registrar fees	*
Miscellaneous	*
Total	\$

* To be supplied by amendment.

Item 24. Relationship with Registrant of Experts Named in Registration Statement.

None.

Item 25. Sales to Special Parties.

During the six month period commencing October 1, 1970, an aggregate of 11,600 shares of Common Stock of the Company were sold by the Company to employees, pursuant to the exercise of options issued under the Stock Option Plan of the Company, for an aggregate cash consideration of \$34,800.

See "Stock Option Plan" with respect to issuances which may be made in the future.

Item 26. Recent Sales of Unregistered Securities.

On July 31, 1968, the Company, in connection with its organization, made the following issuances of its Common Stock, as now constituted: (a) an aggregate of 2,400,000 shares to David Stirling, Jr., William G. Stirling and Harper Sibley, Jr. in exchange for the assignment to the Company of the know-how, processes and developments relating to the manufacture of modular housing, the U. S. patent application covering such know-how, processes and developments and a cash payment of \$6,000; (b) 1,200,000 shares to Harling Properties, Inc., all of the stock of which is owned by Harper Sibley, Jr. and Hickory Hill Development Corporation (all of the stock of which is owned by David Stirling, Sr., David Stirling, Jr. and William G. Stirling) in exchange for all of the outstanding stock of Kabeth Properties, Inc.; (c) 2,600,000 shares to Stirling Brothers Operating Co., Inc., all of the stock of which is owned by David Stirling, Jr., William G. Stirling and David Stirling, Sr., in exchange for all of the outstanding stock of Hollyrook Park II, Inc. and Elmsite Homes, Inc.; (d) 200,000 shares to Stirling Cubet Corporation, all of the stock of which is owned by Stirling Brothers Operating Co., Inc., in exchange for certain of its assets, including the plant and land in Avon, New York currently used by the Company as its executive offices and manufacturing facility. In each instance, the shares were issued without the use of underwriters and the shareholder took his shares for investment. On August 16, 1968 the Company issued and sold 800,000 shares each to Coenen Securities Corporation and Saunders Stiver and Company as agents for 53 persons (Saunders Stiver took 312,500 of such shares for its own account) each of whom took the shares for investment, in exchange for an aggregate cash payment of \$1,600,000. Coenen and Saunders Stiver received a fee of \$15,000 each in connection with such sale of 1,600,000 shares.

In addition, during the period subsequent to the Company's organization through August 11, 1969, (the date of the last sale), the Company issued and sold an aggregate of 472,400 shares of its Common Stock to 14 persons, including R. W. Pressprich & Co. Incorporated and five employees, officers and directors, for an aggregate cash consideration of \$472,400. No underwriters were involved and each of such persons took his shares for investment.

See "Stock Option Plan" with respect to the grant of stock options and the issuance of shares upon the exercise of options.

Government's Exhibit 8

See "Capitalization" and Note 8 to Financial Statements with respect to notes the Company has issued and sold.

With respect to all of the above transactions, the Company relied upon the exemption provided in Section 4(2) of the Securities Act of 1933.

Item 27. Subsidiaries of Registrant.

The following wholly-owned subsidiaries of the Company, which unless otherwise indicated are Delaware corporations, are included in the consolidated financial statements:

Hollywood Park II, Inc. (New York)	Eastway Development Corporation
Kabeth Properties, Inc. (New York)	Yardley Development Corporation
Elmsite Homes, Inc. (New York)	Aquarius Development Corporation
Gaskin Properties, Inc. (New York)	Colby Development Corporation
Clay Development Corporation	Berkley Development Corporation
Redmont Development Corporation	River Road Communications Corporation
	Progressive Housing Corporation

U. S. Shelter Corporation, a wholly-owned subsidiary and Delaware corporation, is not included in the consolidated financial statements. See Note 1 to Consolidated Financial Statements.

Item 28. Franchises and Concessions.

None.

Item 29. Indemnification of Directors and Officers.

Section 145 of the General Corporation Law of the State of Delaware provides for the indemnification of officers and directors under certain circumstances against expenses incurred in successfully defending against a claim and authorizes Delaware corporations to indemnify their officers and directors under certain circumstances against expenses and liabilities incurred in legal proceedings involving such persons because of their being or having been an officer or director. The Certificate of Incorporation and By-Laws of the Company provide for indemnification of its officers and directors as authorized by such section.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, may be permitted to directors, officers and controlling persons of the Company pursuant to the foregoing provisions or otherwise, the Company understands that it is the opinion of the Securities and Exchange Commission that such indemnification is against public policy as expressed in such Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than payment by the Company of expenses incurred or paid by a director, officer or controlling person in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Company will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Item 30. Treatment of Proceeds from Stock Being Registered.

Of the net proceeds to be received by the Company from the sale by it of shares of Common Stock registered hereby, \$.01 per share will be credited to the capital stock account and the balance will be credited to additional paid in capital.

Item 31. Financial Statements and Exhibits.**(a) Financial Statements:**

Included in Prospectus:

Accountants' Reports

Consolidated Balance Sheet at February 28, 1971

Consolidated Statement of Income for the two years ended July 31, 1970 and the seven month periods ended February 28, 1970 (unaudited) and February 28, 1971

Consolidated Statements of Retained Earnings and Additional Paid-in Capital for the two years ended July 31, 1970 and the seven month period ended February 28, 1971

Consolidated Statement of Source and Application of Funds for the two years ended July 31, 1970 and the seven month period ended February 28, 1971

Notes to Consolidated Financial Statements

Government's Exhibit 8

Included in Part II of the Registration Statement:

Accountants' Consents and Reports on Schedules

<u>Schedule Number</u>	<u>Title</u>
II.	Amounts due from Directors, Officers and Principal Holders of Equity Securities other than Affiliates
V.	Property, Plant and Equipment
VI.	Reserves for Depreciation and Amortization of Property, Plant and Equipment
VII.	Intangible Assets
IX.	Bonds, Mortgages and Similar Debt

All other schedules and certain columns in the schedules listed above are omitted as the required information is inapplicable or the information is presented in the financial statements or related notes.

The financial statements of the registrant are omitted as it is primarily an operating company and all subsidiaries included in the consolidated financial statements are totally held.

(b) Exhibits:

- 1 —Forms of Agreement Among Underwriters, Purchase Agreement and Selected Dealers Agreement.
- 2 —Agreement dated July 31, 1968 among David Stirling, Jr., William Stirling, Harper Sibley, Jr., the Company, Harling Properties, Inc., Stirling Brothers Operating Co., Inc. and Stirling Cubet Corporation. (Filed as Exhibit 2 to Registration Statement No. 2-34949 and incorporated herein by reference.)
- 3a —Restated Certificate of Incorporation. (Filed as Exhibit 3a to Registration Statement No. 2-34949 and incorporated herein by reference.)
- 3b —By-laws as amended.
- 4 —Specimen Common Stock Certificate.
- 5a —Qualified Stock Option Plan. (Filed as Exhibit 5a to Registration Statement No. 2-34949 and incorporated herein by reference.)
- 5b —Form of Stock Option Agreement. (Filed as Exhibit 5b to Registration Statement No. 2-34949 and incorporated herein by reference.)
- 6 —Opinion of Shea Gallop Climenko & Gould (to be supplied by amendment).
- 12 —See Exhibits 1, 3a, 3b and the Underwriting Agreement, dated February 19, 1970, between the Company and R. W. Pressprich & Co. Incorporated, filed as Exhibit 1 to Registration Statement No. 2-34949 and incorporated herein by reference.
- 13a —Agreement dated September 23, 1968 with Local 1106, United Brotherhood of Carpenters and Joiners of America. (Filed as Exhibit 13a to Registration Statement No. 2-34949 and incorporated herein by reference.)
- 13b —Agreement dated June 17, 1969 with the national office of the United Brotherhood of Carpenters and Joiners of America. (Filed as Exhibit 13b to Registration Statement No. 2-34949 and incorporated herein by reference.)
- 13c —Contract and lease among Harrison County, Mississippi and Harrison County Development Commission, lessors, and the Company, lessee, dated as of March 1, 1971.
- 13d —Ground lease among Harrison County, Mississippi and Harrison County Development Commission, lessors, and the Company, lessee, dated as of March 1, 1971.
- 13e —Agreement dated December 23, 1970 between Kabeth Properties, Inc. and Route 57 & 31 Development Corp., and amendments dated February 8, 1971 and February 11, 1971.
- 13f —Employment agreement with David Stirling, Jr. dated August 29, 1969. Pursuant to Rule 446, there are omitted employment agreements with William G. Stirling, David Stirling, Sr. and Harold M. Yanowitch, which are substantially identical with that of David Stirling, Jr., except for the offices held and salaries. (Filed as Exhibit 13g to Registration Statement No. 2-34949 and incorporated herein by reference.)

Government's Exhibit 8

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in New York, New York, on the 21st day of April, 1971.

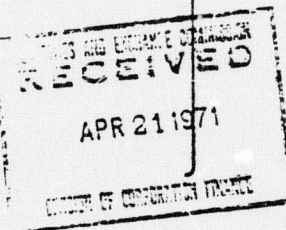
STIRLING HOMEX CORPORATION

By Harold M. Yanowitch
(Harold M. Yanowitch
Executive Vice President)

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
DAVID STIRLING, JR.	Chairman of the Board of Directors and Chief Executive Officer, Director (Principal Executive Officer)	April 21, 1971
PAUL M. KUVEKE, JR.	Treasurer (Principal Financial Officer)	
EDWIN J. SCHULZ	Controller (Principal Accounting Officer)	
WILLIAM G. STIRLING	Director	
HAROLD M. YANOWITCH	Director	
DAVID STIRLING, SR.	Director	
C. W. MARSHALL	Director	
THEODORE W. KHEEL	Director	
JOHN W. CASTELLUCCI	Director	

Harold M. Yanowitch
(Harold M. Yanowitch, individually and as attorney-in-fact for all the persons named above.)



Government's Exhibit 8

ACCOUNTANTS' CONSENTS AND REPORTS ON SCHEDULES

The Board of Directors
STIRLING HOMEX CORPORATION

The examination referred to in our report dated March 22, 1971 included the related supporting schedules for the seven months ended February 28, 1971, included in the Registration Statement. In our opinion, such schedules present fairly the information set forth therein.

We consent to the use of our reports included herein and to the references to our firm under the headings "Consolidated Statement of Income" and "Experts" in the Prospectus.

Peat, Marwick, Mitchell & Co.

PEAT, MARWICK, MITCHELL & CO.

Rochester, New York
April 21, 1971

The Board of Directors
STIRLING HOMEX CORPORATION

The examination referred to in our report dated September 21, 1970 included the related supporting schedules for the two years ended July 31, 1970, included in the Registration Statement. In our opinion, such schedules present fairly the information set forth therein.

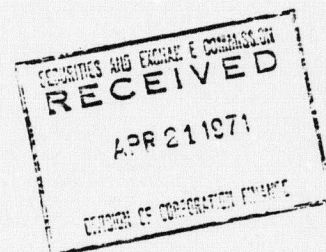
We consent to the inclusion of the following in the Registration Statement to be used in registering, under the Securities Act of 1933, common stock, par value \$.01, of Stirling Homex Corporation:

- (1) our report dated September 21, 1970, upon the consolidated statements of income, additional paid-in capital, retained earnings and source and application of funds of Stirling Homex Corporation and consolidated subsidiaries for the two years ended July 31, 1970.
- (2) the use of our name in said Registration Statement under the captions "Consolidated Statement of Income" and "Experts".

Harris, Kohn, Forster & Company
HARRIS, KOHN, FORSTER & COMPANY

New York, New York
April 21, 1971

The consent of Shea Gallop Climenko & Gould will be contained in the opinion to be filed as Exhibit 6 hereto. The consents of Moore & Hall, and Sullivan & Cromwell will be filed separately.



Government's Exhibit 8

SCHEDULE II

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE II—AMOUNTS DUE FROM DIRECTORS, OFFICERS AND PRINCIPAL
HOLDERS OF EQUITY SECURITIES OTHER THAN AFFILIATES

Name of Debtor	Balance Receivable at Beginning of Period	Additions	Collections	Balance Receivable at Close of Period Current
Year ended July 31, 1969:				
None	\$ —	\$ —	\$ —	\$ —
Year ended July 31, 1970:				
David Stirling, Jr.	—	91,273	27,017	64,258
Harper Sibley, Jr.	—	36,584	28,906	7,678
Seven months ended February 28, 1971:				
David Stirling, Jr.	64,258	196,288	246,260	14,268
Harper Sibley, Jr.	7,678	—	7,678	—
Gary Hammons	—	57,500	34,228	23,272

Government's Exhibit 8

SCHEDULE V

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE V—PROPERTY, PLANT AND EQUIPMENT

	Balance at Beginning of Period	Additions at Cost	Retirements or Sales	Balance at Close of Period
Year ended July 31, 1969:				
Land and improvements	\$ —	\$ 188,110	\$ —	\$ 188,110
Buildings	—	435,579	—	435,579
Office machines, furniture and fixtures	—	85,219	—	85,219
Machinery and equipment	—	395,723	7,703	388,020
Construction in progress	—	8,919(A)	—	8,919
Total	<u>\$ —</u>	<u>\$1,113,550</u>	<u>\$ 7,703</u>	<u>\$1,105,847</u>
Year ended July 31, 1970:				
Land and improvements	\$ 188,110	\$ 813,957	\$ —	\$1,002,067
Buildings	435,579	1,267,345	—	1,702,924
Office machines, furniture and fixtures	85,219	415,732	—	500,951
Machinery and equipment	388,020	735,183	51,688	1,071,515
Other	—	27,998	—	27,998
Construction in progress	8,919	1,162,292(A)	—	1,171,211
Total	<u>\$1,105,847</u>	<u>\$4,422,507</u>	<u>\$51,688</u>	<u>\$5,476,666</u>
Seven months ended February 28, 1971:				
Land and improvements	\$1,002,067	\$ 64,587	\$ —	\$1,066,654
Buildings	1,702,924	2,730,305	—	4,433,229
Office machines, furniture and fixtures	500,951	186,735	2,463	685,223
Machinery and equipment	1,071,515	302,240	3,336	1,370,419
Other	27,998	64,173	—	92,171
Construction in progress	1,171,211	410,482(A)	—	1,581,693
Total	<u>\$5,476,666</u>	<u>\$3,758,522</u>	<u>\$ 5,799</u>	<u>\$9,229,389</u>

(A) Additions to construction in progress are net of transfers to other Property, Plant and Equipment accounts as follows:

Year ended July 31, 1969	\$ 115,781
Year ended July 31, 1970	1,804,881
Seven months ended February 28, 1971	2,778,160

Government's Exhibit 8

SCHEDULE VI

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE VI—RESERVES FOR DEPRECIATION AND AMORTIZATION OF
PROPERTY, PLANT AND EQUIPMENT

Classification	Balance at Beginning Of Period	Additions		Deductions from Reserves	Balance at Close Of Period
		Charged to Profit and Loss Or Income	Charged to Other Accounts	Retirements, Renewals and Replacements	
Year ended July 31, 1969:					
Land improvements	\$ —	\$ 3,096	\$ —	\$ —	\$ 3,096
Buildings	—	6,583	—	—	6,583
Office machines, furniture and fixtures	—	4,295	—	—	4,295
Machinery and equipment	—	54,011	2,100	7,703	48,408
	<u>\$ —</u>	<u>\$ 67,985</u>	<u>\$ 2,100</u>	<u>\$ 7,703</u>	<u>\$ 62,382</u>
Year ended July 31, 1970:					
Land improvements	\$ 3,096	\$ 17,313	\$ —	\$ —	\$ 20,409
Buildings	6,583	14,549	—	—	21,132
Office machines, furniture and fixtures	4,295	18,984	—	—	23,279
Machinery and equipment	48,408	162,124	—	51,688	158,844
Other	—	7,257	—	—	7,257
	<u>\$ 62,382</u>	<u>\$220,227</u>	<u>\$ —</u>	<u>\$ 51,688</u>	<u>\$230,921</u>
Seven months ended February 28, 1971:					
Land improvements	\$ 20,409	\$ 15,694	\$ —	\$ —	\$ 36,103
Buildings	21,132	23,731	—	—	44,863
Office machines, furniture and fixtures	23,279	33,758	—	90	56,947
Machinery and equipment	158,844	135,079	—	1,108	292,815
Other	7,257	11,965	—	—	19,222
	<u>\$230,921</u>	<u>\$220,227</u>	<u>\$ —</u>	<u>\$ 1,198</u>	<u>\$449,950</u>

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SCHEDULE VII

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE VII—INTANGIBLE ASSETS (a)

Description	Balance Beginning of Period	Additions At Cost	Balance at Close of Period
Year ended July 31, 1969	None	None	None
Year ended July 31, 1970:			
Patents pending	\$ 1,285	\$78,408	\$ 79,693
Trademarks	—	8,907	8,907
	<u>\$ 1,285</u>	<u>\$87,315</u>	<u>\$ 88,600</u>
Seven months ended February 28, 1971:			
Patents pending	\$79,693	\$24,991	\$104,684
Trademarks	8,907	9,917	18,824
	<u>\$88,600</u>	<u>\$34,908</u>	<u>\$123,508</u>

(a) Included under "Deferred charges"

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SCHEDULE IX

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

SCHEDULE IX--BONDS, MORTGAGES AND SIMILAR DEBT

February 28, 1971

Name of Issuer and Title of Each	Amount Authorized by Indenture	Amount Issued & Not Retired or Cancelled	Not Held by or for Account of Issuer Thereof	Amount Incl. in Sum Ex'd. under Caption "Long-Term Debt" in Related Bal. Sheets
Installment contracts and lease purchase agreements maturing on various dates from November, 1972 to August, 1974	\$ 238,403	125,871	125,871	54,034
Mortgage loans:				
H. Schader—first mortgage payable maturing February 15, 1973. Payable in yearly installments of \$25,250 plus interest at the rate of 5% per annum	126,250	50,500	50,500	25,250
Graham & Egleston—first mortgage payable maturing July 1, 1972. Payable in yearly installments of \$70,874. Interest at the rate of 5½% per annum is payable semi-annually ..	300,000	141,748	141,748	70,874
Graham & Egleston—first mortgage payable maturing September 12, 1971. Payable in yearly installments of \$34,077 plus interest at the rate of 5% per annum	102,230	34,076	34,076	None
Mabel F. Yorman—first mortgage payable maturing September 4, 1973. Payable in yearly installments of \$20,000 plus interest at the rate of 5% per annum	100,000	60,000	60,000	40,000
Clay Land Corporation—first mortgage payable maturing February 3, 1974. Payable in yearly installments of \$20,000 plus interest at the rate of 5% per annum	100,000	60,000	60,000	40,000
Ruth Chase—first mortgage payable maturing April 1, 1973. Payable in yearly installments of \$24,000 plus interest at the rate of 5% per annum	120,000	72,000	72,000	48,000
Janette A. Wilson—first mortgage payable maturing September 12, 1971. Payable in yearly installments of \$30,677 plus interest at the rate of 6% per annum	92,000	30,666	30,666	None
5% first mortgage payable encumbering land and building at Rochester St., Avon, New York held by Berkshire Life Insurance Company, maturing December 1, 1975. Payable in monthly installments of \$891 each, applicable first to interest and the remainder to principal	57,922	45,104	45,104	36,719
4¼% first mortgage payable encumbering land at Alcorn County, Mississippi, held by National Bank of Commerce of Corinth maturing December 3, 1976. Payable in yearly installments of \$9,500 plus interest	57,000	47,500	47,500	38,000
	<u>\$1,293,805</u>	<u>667,465</u>	<u>667,465</u>	<u>352,877</u>

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Registration No. 2-40122

43168

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

AMENDMENT NO. 3

TO

FORM S-1

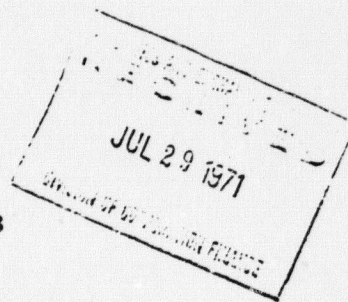
REGISTRATION STATEMENT

UNDER

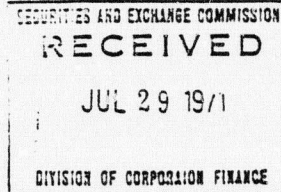
THE SECURITIES ACT OF 1933

OF

STIRLING HOMEX CORPORATION



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PROSPECTUS

500,000 Shares

Stirling Homex Corporation**\$2.40 Cumulative Convertible Preferred Stock**

(Par Value \$1 Per Share)

Convertible (unless previously called for redemption) into Common Stock at 14½ per share, subject to adjustment in certain events. Redeemable at any time as a whole or in part at the option of the Company, upon not less than 30 days' notice, at redemption prices shown herein beginning at \$50 and declining to \$40 after August 1, 1981, plus, in each case, accrued dividends.

The Common Stock is traded in the over-the-counter market. The closing bid and asked prices of the Common Stock in such market (as reported by the National Association of Securities Dealers' Automatic Quotations) for July 28, 1971 were 14 and 14½ per share.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Price to Public(1)	Underwriting Discount(2)	Proceeds to Company(3)
Per Share	\$40.00	\$2.00	\$38.00
Total	\$20,000,000	\$1,000,000	\$19,000,000

(1) Plus accrued dividends, if any, from date of delivery of the Preferred Stock to the Underwriters. Dividends will accrue from such date of delivery and the first dividend will be payable by the Company on October 31, 1971 and thereafter quarterly.

(2) The Company has agreed to indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

(3) Before deducting expenses payable by the Company estimated at \$225,000.

The Preferred Stock is offered by the several Underwriters subject to prior sale, when, as and if issued to and accepted by such Underwriters, and subject to approval of certain legal matters by their counsel, Messrs. Brown, Wood, Fuller, Caldwell & Ivey, and by counsel for the Company, Messrs. Shea Gould Climenko & Kramer, and to certain other conditions. The Underwriters reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part.

Merrill Lynch, Pierce, Fenner & Smith
Incorporated

July 29, 1971

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No dealer, salesman or any other person has been authorized by the Company or the Underwriters to give any information or make any representations other than those contained in this Prospectus, and if given or made, such information or representations must not be relied upon. This Prospectus does not constitute an offer to sell nor the solicitation of an offer to buy any of the securities offered hereby in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction. Except where otherwise indicated, this Prospectus speaks as of its date. Neither the delivery hereof nor any sale made hereunder shall create an implication that the affairs of the Company have continued without change since such date.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE PREFERRED STOCK AND COMMON STOCK OF THE COMPANY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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THE COMPANY

Stirling Homex Corporation manufactures modular housing units and believes that it is one of the nation's leading producers of multi-family modular housing. The modules are manufactured on an assembly-line, using conventional building materials, and are combined at the housing site to form completed dwelling units. Substantially all sales to date have been of two story, attached, wood frame townhouses. The Company has designed a concrete and steel frame module for use in high-rise buildings and has been selected by two housing authorities and the Department of Housing and Urban Development ("HUD") to build four high-rise buildings utilizing the concrete and steel frame modules.

All of the Company's sales of dwelling units for the year and nine months ended April 30, 1971 and substantially all of its backlog represent sales to and orders from local housing authorities, non-profit sponsors and a private university for federally assisted housing projects. Generally, upon receipt of a commitment from a customer, the Company purchases the land, prepares the site, lays the foundations, arranges utility connections, manufactures, installs and connects the modules, and landscapes the housing site, thereby providing a total service to the customer in delivering turnkey housing. Modules are equipped in the manufacturing process with the necessary plumbing and heating fixtures, electrical wiring, appliances, and floor and wall coverings.

Stirling Homex Corporation (with its subsidiaries the "Company") was incorporated in Delaware in 1968. Its principal plant and executive offices are at 1150 East River Road, Avon, New York 14414, telephone 716-926-2481.

PURPOSE OF THE ISSUE

The net proceeds to the Company from the sale of its shares offered hereby (approximately \$18,775,000) will be added to the general funds of the Company and will be available for working capital. The working capital requirements of the Company are substantial and have increased as a result of the growth in sales volume and other factors. See "Business—Sales". Additional working capital will be required in connection with the operation of the proposed new plant in Gulfport, Mississippi. See "Properties—Mississippi Plant". Additions to plant, property and equipment aggregated more than \$8,500,000 during the year and nine months ended April 30, 1971.

As of June 30, 1971, the Company had outstanding \$37,450,000 of short-term indebtedness to banks which had been incurred for working capital purposes. The Company estimates that substantially all the net proceeds from the sale of its shares offered hereby will be applied initially to the temporary reduction of such indebtedness. The Company intends to continue to make short-term borrowings from banks in substantial amounts for working capital purposes. See "Business—Sales".

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CAPITALIZATION

The following table sets forth the capitalization of the Company as of April 30, 1971 and the adjusted amounts giving effect to the issue and sale of the shares of Preferred Stock offered hereby.

	<u>Outstanding</u>	<u>As Adjusted</u>
Debt:		
Short term-notes payable to banks(1)	\$33,700,000	\$14,700,000
Long term-sundry indebtedness(2)	628,027	628,027
Total Debt	<u>\$34,328,027</u>	<u>\$15,328,027</u>
Stockholders' Equity:		
Preferred Stock, par value \$1 per share:		
Authorized 500,000 shares; no shares outstanding; as adjusted		
500,000 shares (liquidation value \$20,000,000)	—	500,000
Common Stock, par value \$.01 per share:		
Authorized 15,000,000 shares; outstanding 8,909,000 shares(3)	89,090	89,090
Additional paid-in capital	8,481,422	26,981,422
Retained earnings	4,948,883	4,948,883
Less treasury stock (60,000 shares)	(180,750)	(180,750)
Total Stockholders' Equity	<u>\$13,338,645</u>	<u>\$32,338,645</u>

(1) Notes payable consist of 90 day unsecured notes to eleven banks bearing interest at a rate $\frac{1}{4}\%$ above the respective bank's best rate on the date of issue. The Company is required to maintain average annual compensating balances at each of these banks equal to approximately 15% to 20% of the outstanding indebtedness to such bank. See "Business—Sales".

(2) See Note 8 of Notes to Consolidated Financial Statements.

(3) Does not include 888,400 shares reserved for issuance upon the exercise of stock options granted or that may be granted under the Stock Option Plan (see "Stock Option Plan") and 1,379,310 shares reserved for issuance upon conversion of the Preferred Stock (see "Description of Capital Stock—Preferred Stock Conversion Rights").

For information concerning obligations under leases on real property, see "Properties—Mississippi Plant" and Note 11 of Notes to Consolidated Financial Statements. For information concerning indebtedness of U. S. Shelter Corporation, see Note 1 of Notes to Consolidated Financial Statements and "Business—Sales".

PRICE RANGE OF COMMON STOCK

The Company's Common Stock is traded in the over-the-counter market. The following table sets forth the range of high bid prices for the Common Stock since its initial public offering on February 19, 1970 at \$16.50 per share, as reported by the National Quotation Bureau, Incorporated. The prices represent prices between dealers, not including any retail mark-up, mark-down or commission, and do not necessarily represent actual transactions.

	<u>High</u>	<u>Low</u>
1970		
1st Quarter (from February 19)	51 $\frac{1}{4}$	26
2nd Quarter	49 $\frac{3}{4}$	8 $\frac{3}{4}$
3rd Quarter	27 $\frac{3}{4}$	11 $\frac{1}{4}$
4th Quarter	25 $\frac{3}{4}$	16
1971		
1st Quarter	26 $\frac{3}{4}$	18
2nd Quarter	23 $\frac{3}{4}$	17 $\frac{3}{4}$
3rd Quarter (through July 28)	18 $\frac{3}{4}$	14

The closing bid and asked prices of the Common Stock in the over-the-counter market (as reported by the National Association of Securities Dealers' Automatic Quotations) for July 28, 1971 were 14 and 14 $\frac{1}{4}$ per share.

DIVIDENDS ON COMMON STOCK

The Company has never declared or paid cash dividends on its Common Stock. All earnings are reinvested in the business. It is not the present intention of the Board of Directors to declare or pay any cash dividends on Common Stock for the foreseeable future. For information with respect to limitations on dividends on Common Stock, see "Description of Capital Stock—Dividend Rights and Restrictions".

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CONSOLIDATED STATEMENT OF INCOME

The following Consolidated Statement of Income of Stirling Homex Corporation and consolidated subsidiaries has been examined as to the two years ended July 31, 1970 by Harris, Kerr, Forster & Company, independent certified public accountants, as set forth in their report appearing elsewhere in this Prospectus. It should be read in conjunction with the other financial statements (including the financial statements examined by Peat, Marwick, Mitchell & Co., independent certified public accountants as set forth in their report appearing elsewhere in this Prospectus) and the related notes included in this Prospectus. With respect to the figures for the nine month periods ended April 30, 1970 and 1971 which are unaudited, the management of the Company believes that all adjustments (none of which were other than normal recurring accruals) necessary to a fair statement of the results for such interim periods have been included.

	Year Ended		Nine Months Ended	
	July 31, 1969	July 31, 1970	April 30, 1970 (Unaudited)	April 30, 1971 (B) (Unaudited)
Revenues:				
Sales—trade (A):				
Manufacturing division	\$2,961,181	\$16,492,770	\$10,855,020	\$18,183,170
Installation division	537,532	5,601,357	3,670,277	6,386,388
Sales to affiliates (A) (D):				
Manufacturing division	2,445,022	—	—	—
Installation division	3,695,316	459,941	459,941	—
Equity in undistributed net income of finance subsidiary (Note 1)	—	—	—	84,434
Total revenues	<u>\$9,639,051</u>	<u>\$22,554,068</u>	<u>\$14,985,238</u>	<u>\$24,653,992</u>
Costs and Expenses:				
Cost of sales (A):				
Manufacturing division	\$2,992,682	\$ 9,919,327	\$ 5,968,419	\$11,414,275
Installation division	3,897,213	5,240,388	3,519,230	5,863,586
Administrative and selling expenses ..	701,157	2,390,604	1,623,365	2,311,343
Interest—long term debt	48,420	9,165	8,786	21,343
—other	26,342	639,016	430,522	1,287,466
Total costs and expenses	<u>\$7,665,814</u>	<u>\$18,198,500</u>	<u>\$11,550,322</u>	<u>\$20,898,015</u>
	<u>\$1,973,237</u>	<u>\$ 4,355,568</u>	<u>\$ 3,434,916</u>	<u>\$ 3,755,979</u>
Other income:				
Sales of land (Notes 4 and 5)	\$ 425,956	—	—	—
Income before Federal and state income taxes	<u>\$2,399,193</u>	<u>\$ 4,355,568</u>	<u>\$ 3,434,916</u>	<u>\$ 3,755,979</u>
Income taxes (Note 9):				
Federal—current	\$ 730,554	\$ 1,757,513	\$ 1,423,465	\$ 826,754
—deferred	422,343	317,386	265,714	785,406
State—current	112,658	208,469	170,816	171,676
—deferred	51,157	37,011	37,959	140,930
	<u>\$1,316,712</u>	<u>\$ 2,320,379</u>	<u>\$ 1,897,954</u>	<u>\$ 1,924,766</u>
Net income	<u>\$1,082,481</u>	<u>\$ 2,035,189</u>	<u>\$ 1,536,962</u>	<u>\$ 1,831,213</u>
Average shares outstanding (C)	<u>8,025,432</u>	<u>8,649,483</u>	<u>8,566,844</u>	<u>8,891,760</u>
Earnings per common share (C) (July 31, 1969 includes \$.02 per share from sales of land)	<u>\$.13</u>	<u>\$.24</u>	<u>\$.18</u>	<u>\$.21</u>

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NOTES:

(A) Sales of modules (Manufacturing Division) are recognized when units are manufactured and assigned to specific contracts. Installation work (Installation Division) is recorded on the percentage of completion method. See Note 3 of Notes to Consolidated Financial Statements and "Business—Sales" for additional information.

(B) The results for the nine months ended April 30, 1971 should not necessarily be considered indicative of the results for the year ending July 31, 1971.

(C) Earnings per common share are based upon the weighted average number of shares outstanding during the periods presented after giving retroactive effect to the four-for-one stock split effected in February 1970. Stock options outstanding during these periods have not been included in this computation since the effect of their inclusion would be insignificant.

(D) Gross profit on sales to affiliates was \$510,233 for the year ended July 31, 1969 and \$59,833 for the year ended July 31, 1970.

(E) The following expenses relating to land held for development or sale were capitalized in the periods presented:

	Year Ended		Nine Months Ended	Nine Months Ended
	July 31, 1969	July 31, 1970	April 30, 1970	April 30, 1971
Real estate taxes	\$ 18,452	\$23,762	\$23,762	\$43,648
Mortgage interest	93,974	38,774	30,139	19,726
Other expenses	55,558	33,133	36,220	147
	<u>\$167,984</u>	<u>\$95,669</u>	<u>\$90,121</u>	<u>\$63,521</u>

(F) The pro forma (unaudited) ratio of earnings before fixed charges (which are comprised of interest and one-third of rentals) and taxes on income to fixed charges and earnings required for preferred stock dividends is 1.8 for the year ended July 31, 1970, and 2.3 for the nine months ended April 30, 1971. Earnings required for annual preferred stock dividends of \$1,200,000 would have been approximately \$2,614,000 for the year ended July 31, 1970, and \$1,841,000 for the nine months ended April 30, 1971, before deducting applicable income taxes.

(G) No dividends have been declared or paid during the periods covered by the above statements.

(H) Numerical note references are to Notes to Consolidated Financial Statements.

Sales and net income for the months of March and April 1971 were substantially higher, on a monthly basis, than sales and net income for the seven months prior thereto. This was due primarily to increased production resulting from the completion in late January of additions to the Company's manufacturing facility in Avon and higher costs and lower production during the earlier period by reason of the construction of such additions, the accomplishment of certain product design changes and the temporary cessation of production for ten days in August 1970. The Company can give no assurance that the levels of sales and net income experienced during March and April 1971 can be maintained.

The unamortized balance of deferred charges increased by approximately \$1,600,000 during the nine months ended April 30, 1971. Such increase principally represents the deferral of certain costs incurred in connection with the continuing development of the Company's high-rise apartment system, low-rise townhouses and apartment/hotel units, installation and start-up of computer systems, the aforementioned plant start-up costs for the Company's new manufacturing facility in Avon, applications for U. S. and foreign patents and trademarks, and costs attributable to the issuance of the Preferred Stock offered hereby. These additions to deferred charges, other than costs attributable to the issuance of the Preferred Stock offered hereby, represent approximately 39% of income before Federal and state income taxes for the nine months ended April 30, 1971. See Note 7 of Notes to Financial Statements.

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BUSINESS

The Company is engaged in the assembly-line manufacture and sale of modular housing units. The Company manufactures modules for two story wood frame townhouses and apartments, and has developed concrete and steel frame modules for high-rise structures. Substantially all of the dwelling units sold have been purchased by customers for rental rather than resale.

Products

The Townhouse

The townhouse consists of two, three or four modules, varying with the number of bedrooms. Modules are approximately 12 feet in width, up to 31 feet in length and 9 feet in height and are stacked and joined to form two story dwellings. All modules, upon leaving the assembly-line, contain and have affixed or installed wall and floor coverings, wood trim, drapery fixtures, cabinetry, stairs, heating and plumbing fixtures, all necessary electrical systems and fixtures, and welded insulated glass windows. If ordered, a stove, refrigerator and air conditioning system are included. The exterior walls are insulated, sheathed and finished except where conventional brick is used, which is applied at the site.

To date, substantially all of the Company's sales of dwelling units have been of two story attached townhouses. Studio, one, two, three, four and five bedroom models are now available, with a variety of exterior treatments. When the modules have been joined and utilities connected at the building site, nothing further is required to prepare the dwelling units for occupancy. The Company may adjust its production line to meet the specifications of a substantial order. Dwelling units vary in price to the Company's customers from \$15,000 for a studio unit to \$26,000 for a five bedroom unit, inclusive of average site work, installation and transportation costs, and exclusive of land costs.

The Company performs the on-site development work and the installation of the modules in a conventional manner. It utilizes independent contractors and local union construction personnel and tradesmen under the supervision of the Company's employees. Primary on-site development work consists of preparing the foundations, making the necessary utility connections, and installing sewers. Townhouse modules are transported to the site by truck or rail, lifted by crane onto the foundations and joined to each other and the foundation. The electrical, heating and plumbing systems between the modules are connected, and pre-packaged trim is applied where the modules are joined. Gutters and downspouts are then installed and brick is applied to the first floor exterior when required by the customer. Finally, the appropriate areas of the site are landscaped and paved.

The High-Rise

The Company has designed a concrete and steel frame module for use in high-rise buildings up to twenty stories in height. It has been selected by two housing authorities and, subject to entering into contracts, will build three high-rise apartment buildings (twelve and thirteen stories) using these modules. See also "Business—Operation Breakthrough". The modules that will become the top floor of the building are placed on the building foundation which has electronically controlled hydraulic jacks and supporting steel structures in alternate bays. After those modules are connected to each other, the jacks raise the entire floor 10 feet and new modules are inserted in the alternate bays below. The jacks are then lowered and the other bays are filled with modules to complete the floor, which is then elevated. This process is repeated until the building is completely erected. The high-rise buildings will contain elevators. Non-load bearing interior walls may be placed wherever desired, thus permitting flexibility of design.

The Company has built a four story building using this system adjacent to its Avon plant. This building is used both as a sales facility and to train Company employees in the use of its high-rise

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installation system. Patent applications are pending with respect to the Company's concrete and steel frame module and its system for erecting a high-rise building, but no assurance can be given that patents will be granted.

Operation Breakthrough

The Company's high-rise system has been selected by HUD as one of twenty-two winners in its "Operation Breakthrough" program. As part of Operation Breakthrough, the Company has entered into an agreement to construct a 13-story building containing more than 200 apartments for the elderly in Memphis, Tennessee. This program has as its goal the development of new technology and greater production capacity in the housing industry to assist in meeting the continuing high demand for housing in the United States.

Sales

Total revenues for the year ended July 31, 1970, and for the nine months ended April 30, 1971, were \$22,554,068 and \$24,653,992. The trade sales for the respective periods were to nine customers and 26 customers. For the year ended July 31, 1970, the largest customer accounted for approximately 38% and for the nine months ended April 30, 1971, no customer accounted for more than 14% of sales. One customer was the assignor of a single contract which would have accounted for about 32% of sales for the nine month period if it had not been assigned in part. The assignor agreed to purchase 800 dwelling units from the Company. Thereafter, the obligation to purchase these dwelling units was assigned in part to 12 other customers without recourse to the assignor. These assignments have no effect on the Company's method of recognizing and recording income. No other customer accounted for as much as 14% of sales for either period. Because of the nature of the Company's business, the identity of its customers is likely to differ from year to year. The Company therefore believes that the percentage of sales represented by any single customer in a particular year is not necessarily indicative of the importance of such customer to the on-going business of the Company.

Of the sales for the nine months ended April 30, 1971, about 19%, including a substantial part of those made pursuant to the contract referred to above, are subject to the selection of sites by the customers. All sales are subject to certain other conditions including the securing of various approvals, some of which have not yet been complied with. The Company has never had any significant difficulty in complying with such conditions and does not anticipate that it will have any in connection with the sales referred to.

Sales of modules are recognized by the Company for accounting purposes when units are manufactured and assigned to specific contracts. Installation work is recorded on the percentage-of-completion method. The Company's receivables consist primarily of two categories: billed and unbilled. Billed receivables represent amounts which have been invoiced to customers on either contracts in process or completed contracts. Unbilled receivables represent amounts included in sales on contracts in process for which billings will be rendered in the future in accordance with the contracts. See Note 3 of Notes to Consolidated Financial Statements.

Cash Receipts and Working Capital

The following table displays the Company's experience for the fiscal year and nine months ended April 30, 1971 with respect to sales as they are recorded for accounting purposes and cash receipts; and the production of modules in the manufacturing facility as compared with installations at the site for the periods shown. See Note 3 of Notes to Consolidated Financial Statements.

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	<u>Sales</u>	<u>Cash Receipts</u>	<u>Modules</u>	
			<u>Manufactured</u>	<u>Installed</u>
Year ended July 31, 1970	\$22,554,000	\$10,774,000	5,184	1,281
Nine months ended April 30, 1971	24,654,000	9,023,000(1)	4,526	1,740
	<u>\$47,208,000</u>	<u>\$19,797,000</u>	<u>9,710(2)</u>	<u>3,021</u>

(1) Of this amount, \$3,000,000 was received from U. S. Shelter Corporation, the Company's wholly-owned unconsolidated subsidiary, in consideration of the assignment to it, without recourse, of a part of the Company's receivables under a contract with a customer. Until collection of this receivable, the Company will pay interest equal to U. S. Shelter Corporation's rate, which was 7% per annum as of April 30, 1971.

(2) Of the uninstalled modules, at April 30, 1971, 2,862 were stored near the Company's plant, 3,759 were located at or near installation sites and 68 were in transit.

(3) A material amount of contract receivables was not collected within one year from the time the sales were recorded.

For the year and nine months ended April 30, 1971 a large part of the Company's sales of dwelling units were pursuant to federally funded turnkey contracts with local housing authorities which provide for payment only after completion of the work and receipt of all approvals necessary for occupancy and do not provide for progress payments. See "Business—Financing." While production of modules and production costs continue throughout the year, the installation of modules is sometimes delayed by zoning and/or engineering requirements, adverse weather conditions or other causes. There has been no seasonal variation in the manufacture of modules but there has been some seasonal variation in the installation of modules and related site work due to weather conditions. As a result of these factors, and also because of the growth in production and sales volume over the period, it is necessary for the Company to improve its working capital position and cash flow.

Accordingly, in recent months the Company has shifted a significant portion of its sales efforts towards customers which can enter into contracts providing for cash progress payments thereby reducing the necessity of the Company carrying the receivables for an extended period of time prior to the receipt of cash. The receipt of progress payments does not change the Company's present method of accounting for revenues. In addition, the Company is attempting to expedite the installation of its modules through the increased use of subcontractors as well as its own installation personnel. In either case, the Company personnel supervise this activity. An increase in the installation rate is an important factor in the completion of contracts and the receipt of cash.

The Company has begun negotiations with certain banks for a one year revolving credit agreement for working capital purposes, in an amount equal to 60% of eligible receivables, the loans not to exceed \$25,000,000 in the aggregate at any one time outstanding. The proposed agreement may provide that borrowings thereunder will be subject to the condition that the Company will reduce the number of uninstalled modules to no more than 3,500 by December 31, 1971 and will have no more than 5,500 uninstalled modules on April 30, 1972 and 3,500 on June 30, 1972. U. S. Shelter Corporation is also negotiating a similar one year revolving credit agreement for the purpose of refunding loans made under the Company's revolving credit agreement and for working capital, in an amount up to 85% of its eligible receivables on a contract by contract basis, the loans not to exceed \$20,000,000 in the aggregate at any one time outstanding or \$30,000,000 if and when the aggregate of uninstalled modules for the Company is reduced to 3,500. The proposed revolving credit agreement of U. S. Shelter Corporation may provide for the assignment, as collateral, of the proceeds due under financed contracts. The proposed terms of the revolving credit agreements are not yet definitive and are subject to change and negotiation of other terms. See "Business—Financing."

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Backlog

The Company's backlog consists of a variety of projects, ranging from projects in the early stages of development to projects which have been partially completed, and is represented by contracts, orders, letters of designation or letters of intent. As of April 30, 1971, the Company's backlog was approximately \$179,000,000, which includes a \$100,000,000 order from a nonprofit sponsor. Approximately \$14,000,000 of the backlog will be completed during the year ending July 31, 1971. The \$100,000,000 order is subject to the completion of the plant in Mississippi (see "Business—Property"), and the obtaining of necessary federal funding which cannot now be assured. It is contemplated that this order, which represents approximately 5,000 dwelling units, will be filled over a maximum 7-year period; in all instances, it will be necessary to obtain appropriate sites and various local approvals.

Of the remaining \$79,000,000 of backlog, approximately \$20,000,000 represents work to be completed under contracts in process, and \$39,000,000 is subject to the fulfillment of one or more conditions, such as the commitment of federal funds, the finalization of contracts and the acquisition of appropriate sites. Although the Company believes that these conditions will be satisfied, it can give no assurances in this regard.

*Manufacturing**Assembly-Line Manufacture of Modules*

The townhouse modules are manufactured at the Company's Avon plant on a center assembly-line process. At the first work station the floor assembly is built. At succeeding work stations, wall systems, ceiling systems, roof systems, kitchen assemblies, electrical systems and fixtures, plumbing systems and fixtures, heating systems and fixtures, insulation, doors and trim, ceramic tile, resilient flooring or carpeting and, when ordered, air conditioning systems, stoves and refrigerators are added in sequence. As the modules progress down the assembly-line, constituent parts are cut to size, shaped and assembled on either side and overhead of the assembly-line and are installed in the module. The module is then wrapped in weather-proof plasticized paper for temporary storage or shipment. In a separate facility the Company manufactures components, such as cabinets and stairs, which are installed on the assembly-line.

At the current operating level, the number of modules that can be produced in a day varies from about 30 to 40, depending on the type of modules being produced. The production facility to be constructed in Gulfport, Mississippi is intended to have the capacity to complete 100 modules in a day. See "Properties—Mississippi Plant". The Company has been granted a U. S. patent and has foreign applications pending with respect to its assembly-line method of manufacturing modules. It can give no assurance that such foreign applications will be successful.

Use of Conventional Materials

The Company uses conventional building materials. It utilizes gas heat (townhouse) or electric heat (high-rise), double party wall and separate ceiling/floor systems, copper water piping, adhesives, nail and screw fastenings and vinyl interior wall coverings. Many components, such as fixtures, appliances and hardware, are purchased ready for installation from independent suppliers. The Company does not have long term purchase contracts with its suppliers; however it believes its raw materials and components are readily available from alternative sources. According to the desired specifications of a particular customer, various interchangeable materials may be utilized with no adverse effect on production efficiency.

The Company performs quality control inspections throughout the manufacturing process. The Company believes its manufacturing system, which eliminates exposure of the materials to the elements during manufacture, enables it to process and install materials in prime condition and to maintain greater

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quality control and uniformity in its housing than exist in the conventional housing industry. The Company warrants the materials and workmanship of its modules and site improvements for one year from the date of purchase by a customer.

Time Factors

Since on-site construction requirements are reduced to a minimum, reliance upon favorable weather and other local conditions is minimized. Accordingly, the Company's modular housing system permits the complete installation of a housing unit, from excavation of the foundation to occupancy, in less time than is required by conventional construction and eliminates to a large extent clean-up after completion of the project. The reduced construction time lessens the amount of interest costs incurred during development and shortens the interval between the commencement of a project and occupancy and the production of income. Where relocation of families is required, as may be the case in low income housing, the relocation period is appreciably shortened. Although the Company has experienced only minor delays in its site work, it can give no assurance that it will not encounter delays in the future.

Transportation of Units

The Company ships modules to sites and staging areas by flatbed trailer and railroad flatcar. It owns 141 trailers and four tractors and leases 50 flatcars. The Company also utilizes independent carriers which furnish additional tractors and drivers. Shipments by truck, because of cost factors, are not generally made beyond a radius of about 400 miles; shipments by rail may be made to destinations 1,500 miles from the plant site. Upon the completion of its new facility to be constructed at Gulfport, Mississippi, which will include an 8,500 foot loading dock, the Company intends to ship modules by barge over inland waterway systems as well as by truck or rail where appropriate.

Codes and Legislation

The Company's products are subject to the requirements of local building codes. In its opinion, the Company has established building specifications which meet the requirements of most of these codes. Prior to the commencement of a project, the specific local code is studied by the Company to insure that its product will comply with it. In this connection, representatives of the New York Board of Fire Underwriters inspect the wiring in the modules on the assembly-line and render their approvals in the factory. The location, site plan and installation of its modular units are also subject to local zoning and other similar ordinances.

Minor delays in the completion of its building projects have been experienced by the Company due to the application of such building codes and ordinances. The Company cannot give any assurance that it will not encounter similar delays in the future.

Several states, including New York, have enacted legislation which affects factory built housing. The Company believes that a primary objective of these statutes is the establishment of state-wide standards which may be adhered to by manufacturers in lieu of compliance with various local building codes. However, the Company cannot predict what effect either existing or pending legislation in this area will have on its products or operations.

A Presidential Executive Order issued on March 29, 1971 established a Construction Industry Stabilization Committee to "assure generally conformance of any increase in any wage or salary [established pursuant to a collective bargaining agreement] in the construction industry" with the provisions of such order. It also established an Interagency Committee on Construction to "develop criteria for the determination of acceptable prices in construction contracts as well as criteria for

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acceptable compensation, including bonuses, stock options and the like." The Company is unable to predict the impact, if any, of this Executive Order and its implementation on the Company's operations.

Federal and state regulations limit the dimensions and weight of loads permitted on rail and highways. Such regulations have not had a material adverse effect on the operations of the Company.

Labor Relations

The Company employs about 1,000 people exclusive of site labor, of whom about 365 are executive, administrative or clerical with the balance engaged in production. In September 1968 the production employees were organized in an industrial unit by the United Brotherhood of Carpenters and Joiners of America, the largest of the building trades unions, representing approximately 30% of all building trades union employees. The Company thereafter entered into a collective bargaining agreement, expiring in September 1971, with the local union providing an industrial contract covering all production employees. The Company anticipates that negotiations relating to a new collective bargaining agreement will commence in the near future. While it does not expect any difficulty in negotiating such contract, it can give no assurance in this connection.

In June 1969 the Company entered into an international agreement with the national office of the United Brotherhood of Carpenters and Joiners of America. Under this contract the Union has agreed to furnish competent journeymen on a non-discriminatory basis to install Company modules anywhere within the jurisdiction of the Union. In return, the Company has agreed to recognize the jurisdictional claims of the Union and not to subcontract any work within the Union's jurisdiction which is to be performed at the job site except to a contractor who is a party to an agreement with the Union or who agrees in writing to be bound by the terms of the aforementioned agreement. As a result, the modules are manufactured and dwellings are installed completely by building trades union labor. The Company has had no strikes or interferences with its production or on-site erection of its dwelling units as a result of labor disputes with its employees.

Freedom from work interruptions as a result of labor problems is important to the continued success of the Company's business. The Company believes that the above-mentioned agreements have contributed to its present satisfactory labor relations.

The Company and the Union have agreed to cooperate in a program to provide free training and job opportunities to unemployed unskilled labor and have established an educational program at the Company's Avon plants. The United States Department of Labor and the New York State Department of Labor have awarded the Company manpower grants to assist in the training, in cooperation with the Union, of unemployed unskilled workers in the Rochester area. The Company also offers a continuing education program to all of its employees, with over 90 courses ranging from the skills required on the assembly-line to computer simulation exercises for management.

Financing

The Company believes that its assembly-line produced modular housing is particularly suited to assist in meeting the aims of the federal low rent and moderate income housing programs by permitting the erection of large numbers of approved units in much less time than is possible with conventional construction methods. The Company has directed and intends to direct a significant portion of its sales efforts toward local housing authorities qualified for various forms of financial assistance from HUD and toward private non-profit organizations which sponsor housing for families eligible to receive rental assistance under the National Housing Act. All of the contracts entered into by the Company during the year and nine months ended April 30, 1971 have been fixed price contracts.

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Financing Sales to Local Housing Authorities

Townhouses have been sold to ten local housing authorities in New York, Ohio, Pennsylvania, Massachusetts, Maine, and Washington, D. C. A qualified local housing authority, in order to raise funds to pay the Company, borrows funds for a period of 60 days to one year, either in the form of a direct loan from HUD, or more commonly, by issuing tax exempt notes which are sold in the private money market and are secured by the full faith and credit of the United States Government. Thereafter, HUD, as the agent for the local housing authority, sells bonds of the local housing authority to pay off the short term indebtedness of the authority and to provide permanent financing for the project. Local housing authority bonds are normally sold with maturities of up to forty years. The bonds are tax exempt and, like the notes mentioned above, are secured by the full faith and credit of the United States Government.

U. S. Shelter Corporation

During the past fiscal year U. S. Shelter Corporation ("Shelter") was organized as a wholly-owned subsidiary of the Company to provide interim and long-term financing services to purchasers of the Company's modular housing. Under Section 236 of the National Housing Act, the Federal Housing Administration ("FHA") may insure a mortgage, held by a qualified mortgagee, which is equal in principal amount to 100% of the costs of a project incurred by a qualified non-profit mortgage-sponsor. The FHA has approved Shelter as a qualified mortgagee. Where a Company's customer desires financing to cover the costs of acquiring land, purchasing and installing the modules, and preparing the site, Shelter will agree to supply temporary funds and to provide permanent mortgage financing after it has obtained a commitment from the FHA to insure the permanent mortgage, secured another form of federal assistance, or arranged for permanent financing from private institutional sources. Upon obtaining such a commitment, Shelter will borrow the funds necessary for interim financing from private institutional sources, and lend such funds to the Company's customer. Shelter's borrowings will not be guaranteed by the Company. For its services, Shelter charges a fee which is based on the principal amount of the permanent mortgage. See Note 1 of Notes to Consolidated Financial Statements.

Shelter has been given approval to sell mortgages to, and buy mortgages from, the Federal National Mortgage Association and the Government National Mortgage Association. During the nine months ended April 30, 1971 Shelter's earnings were derived from the accrual of fees aggregating \$300,000, which will not be received until the mortgages close.

Financing Sales to Non-Profit Sponsors

The Company has made sales to, or received orders (subject to federal approval) from, non-profit sponsors in New York, Mississippi, Ohio, Indiana, Massachusetts, West Virginia and Maine. Section 236 of the National Housing Act provides indirect rental assistance to eligible low and moderate income families through periodic interest reduction payments by HUD to the mortgagee in amounts which effectively serve to reduce the mortgagor's obligation to the repayment of principal plus 1% interest. Section 236 housing developments are also eligible for rent supplement payments by HUD to the non-profit sponsor for up to 40% of the dwellings in the development when rents are less than the amounts required to meet debt service and operating expenses.

Legal Proceedings

Homasote Company has alleged that the Company is wrongfully using the word "Homex" in its name on the ground that the use constitutes a violation of the registered trade name "Homex", which Homasote holds on pre-molded wood-fiber strips for use as expansion joint fillers in concrete and masonry construction. The Company has denied the claim and, in August 1969, brought an action

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against Homasote in the United States District Court, Western District of New York, for a declaratory judgment that it may continue to use the word "Homex". In the same court, Homasote then brought an action to enjoin the use by the Company of the word "Homex", for an accounting and for unspecified damages. In the opinion of the Company, there are valid defenses to the claims alleged.

The Company is a defendant in an action commenced in the United States District Court, Southern District of New York in March 1971. The plaintiff, a former stockholder of the Company, alleges that he suffered \$1,575,000 in damages by reason of an alleged conspiracy between the Company and a co-defendant broker to force plaintiff to sell 90,000 shares of the Company's Common Stock at a price substantially below its alleged market value. The shares of Common Stock of the Company owned by the plaintiff were not registered under the Securities Act of 1933 and were represented to have been acquired for investment in August 1968. The plaintiff has also asked for treble damages. In the opinion of the Company, it has valid defenses to the claims alleged.

Competition

The Company's principal customers are local housing authorities and non-profit sponsors. The usual practice for a local housing authority is to entertain competing proposals. The major factors which affect a customer's decision include price, design and quality of product, responsibility of the builder and speed with which a project may be completed.

The Company must compete with numerous conventional builders, many of which possess much greater resources than the Company. In addition, conventional methods have a greater acceptance with many developers and housing authorities. The Company believes, however, that its manufactured housing is competitive in price and quality with conventional housing. There are other companies, some of which possess much greater resources than the Company, that have announced their intention to use, and may be using, an assembly-line manufacturing technique similar to that used by the Company, or which are actively engaged in research into such technique.

PROPERTIES

Avon Facilities

The Company's principal office and factory are located on 57 acres of land owned by it in Avon, New York. They consist of a brick and steel office building and an adjoining concrete block factory having an aggregate area of about 140,000 square feet. The original plant was erected in 1967, and a 75,000 square foot addition was completed in early 1971.

In 1969, the Company purchased a one story steel and masonry building containing approximately 48,000 square feet and five acres of land in Avon near its main location. It is used to manufacture components for the housing modules, and contains offices and classrooms used in the Company's education program.

During 1970 the Company constructed a four story prototype modular high-rise building adjacent to its Avon plant and an observation center, containing the electronic controls for the hydraulic jacks, from which the high-rise system may be viewed and studied. See "Business—The High-Rise".

Mississippi Plant

Construction of a manufacturing plant in Gulfport, Mississippi, capable of producing 100 finished modules per day upon completion, is expected to be commenced in September 1971. It is anticipated that the facility will be 350,000 square feet in area and will employ approximately 2,000 persons. Capital expenditures in connection with the plant are expected to be approximately \$4,900,000. In a contract with the Company, Harrison County (where the plant site is located) has agreed to take the steps

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necessary to authorize the issuance and sale of tax exempt industrial revenue bonds in an amount up to \$4,900,000, and to use the proceeds to meet the cost of constructing and equipping the plant. If such sale is not consummated, the Company will arrange to finance the cost of the facility itself.

On March 17, 1971, the Company leased 100 acres on which the facility is to be located from Harrison County and its Development Commission under a 30-year lease providing for a rental of \$36,325 per annum, with 60 one-year renewal options at an annual rental of \$25,000. The lease gives the Company an option to purchase the land and the facility at the end of the initial term and each renewal term for \$100. If the bonds are sold, the Company will pay, as additional rent, all amounts necessary to pay principal and interest on the bonds when due.

The Company plans to produce its townhouse, apartment and high-rise modules at Gulfport. This facility will have its own rail spur and loading dock.

MANAGEMENT

The directors and executive officers of the Company are:

<u>Name</u>	<u>Office</u>
David Stirling, Jr.*	Chairman of the Board of Directors and Chief Executive Officer
William G. Stirling*	President and Director
Harold M. Yanowitch*	Executive Vice President, General Counsel and Director
E. A. Bartz	Vice President and Secretary
Frank Csapo	Vice President-Manufacturing
Reuben K. Davis	Vice President and Assistant Secretary
Newman J. Evans	Vice President-Marketing
Gary L. Hammons	Vice President-Real Estate and Installation Division
Herman D. Hillman	Vice President
Victor G. Pappas	Vice President-Personnel
Arthur E. Rosfeld	Vice President-Program Planning
Thomas Santa Lucia	Vice President
Edwin J. Schulz	Vice President and Controller
David Stirling, Sr.	Vice President and Director
Carl L. Wren	Vice President-Market Research
Paul M. Kuveke, Jr.	Treasurer
C. W. Marshall	President, U.S. Shelter Corporation and Director
Theodore W. Kheel	Director
John W. Castellucci	Director

* Member of Executive Committee.

Prior to organizing the Company in July 1968, David Stirling, Jr., William G. Stirling, David Stirling, Sr. and Frank Csapo had been officers of Stirling Bros., Inc., a multi-family housing development and operating company, since its organization in 1962.

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Harold M. Yanowitch had been engaged in the practice of law for more than 20 years before joining the Company in 1969. Prior to joining the Company, Mr. Yanowitch was a senior partner in the law firm of Yanowitch, Frank & Garrity.

E. A. Bartz was Controller of Stirling Bros., Inc. from 1966 to August 1968 when he joined the Company as Treasurer. Prior to 1966 Mr. Bartz was Controller of a real estate investment company for twelve years.

Reuben K. Davis joined the Company in 1969. A lawyer, Mr. Davis previously had been a public official in the City of Rochester for more than three years.

Newman J. Evans, for more than three years before joining the Company in 1968, was General Sales Manager for the Iron City/Whitmer Jackson Company, Pittsburgh, Pennsylvania.

Gary L. Hammons joined the Company in 1970. For more than five years prior thereto he was with the Kroger Company as vice president—property.

Prior to joining the Company in 1970, Herman D. Hillman directed the U. S. Department of Housing and Urban Development's programs of the Housing Assistance Administration (low-rent, college and senior citizens) in the New York and New England states. Mr. Hillman, a lawyer, first joined the Legal Staff of the U. S. Housing Authority in 1939.

Victor G. Pappas has been with the Company since 1969. Prior thereto, for more than three years, he was Corporate Director of Personnel for a subsidiary of The Singer Company.

Arthur E. Rosfeld joined the Company in 1969. During the previous year he was employed as Acting Deputy Assistant Secretary for the Housing Assistance Administration of HUD. From May 1967 to September 1969, Mr. Rosfeld also served as the Director of the Operational Services Division of the Regional Housing Administration of HUD and from September 1966 with the Assistant Secretary for Renewal and Housing Assistance. During the two years prior thereto, Mr. Rosfeld worked as a private consultant on urban affairs.

Thomas Santa Lucia engaged in the practice of law in Buffalo, New York for more than three years prior to joining the Company in 1969.

Edwin J. Schulz joined the Company in 1963, after leaving his position as senior systems analyst of Armstrong Cork Co., Inc., a manufacturer of building products where he had been employed since prior to 1964.

Carl L. Wren has directed the Company's market research activities since its inception in July 1968. For more than three years prior thereto, he was with Stirling Bros., Inc.

Paul M. Kuveke, Jr. joined the Company in 1970. From 1967 to 1970 Mr. Kuveke, a certified public accountant, was associated with Irving Trust Company and for the six previous years, he was associated with a firm of certified public accountants.

C. W. Marshall, for more than 20 years prior to joining the Company in 1970, was a senior officer of Central Trust Company, Rochester, New York.

Since 1949, Theodore W. Kheel has been a member of the law firm of Battle, Fowler, Stokes & Kheel and has served as a mediator and arbitrator of labor disputes for approximately 30 years. Mr. Kheel is also a director of Western Union Telegraph Company, Athlone Industries, Inc., Combustion Equipment Associates, Inc. and the Republic National Bank of New York, of which he is also Chairman of the Board of Directors.

Since prior to 1964 John W. Castellucci has been employed by the National Association of Blue Shield Plans, a trade association of medical insurance companies. He has been President since 1967 and served as Executive Vice President prior thereto.

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The following table sets forth the remuneration for the fiscal year ended July 31, 1970 of each director and the three highest paid officers of the Company whose remuneration for the year from the Company and its subsidiaries exceeded \$30,000, and all directors and officers as a group:

<u>Name</u>	<u>Capacity in Which Remuneration was Received</u>	<u>Aggregate Direct Remuneration</u>
David Stirling, Jr.	Chairman of the Board and Chief Executive Officer	\$ 75,557
William G. Stirling	President and Chief Operating Officer	\$ 75,557
Harold M. Yanowitch	Executive Vice President and General Counsel	\$ 70,653
Richard E. Karkow(1)	Executive Vice President and Treasurer	\$ 63,750
David Stirling, Sr.	Vice President	\$ 44,984
All Directors and Officers as a Group (11 Persons)		\$498,310(2)

(1) Mr. Karkow left the employ of the Company in February 1971.

(2) The law firm of which Mr. Kheel is a member received \$50,000 during the year ended July 31, 1970 for services rendered, which amount is not included in the above figure.

Currently, the Company is paying annual salaries of \$125,000 each to David Stirling, Jr. and William G. Stirling and \$100,000 to Harold M. Yanowitch. There are employment agreements terminating in September 1974 with these persons and with David Stirling, Sr., who is receiving an annual salary of \$45,000. Officers and directors as a group will receive aggregate remuneration in the amount of \$814,000 for the year ending July 31, 1971.

ORGANIZATION AND CERTAIN TRANSACTIONS

At the time of the Company's organization Messrs. David Stirling, Jr., William G. Stirling, David Stirling, Sr. and Harper Sibley, Jr. received directly or through corporations which they controlled, an aggregate of 6,400,000 shares of Common Stock of the Company in return for the land, building and manufacturing facilities in Avon, a patent application, processes and know-how relating to the assembly-line manufacture of housing, \$6,000 in cash and the outstanding stock of three corporations in the land and housing development business. The stock of the three corporations and the physical assets acquired had a net aggregate book value of \$111,627 as determined by the accountants for the Company. The land, building and manufacturing facilities had been purchased or constructed by the founders of the Company at a total cost to them of approximately \$400,000, subject to liabilities of approximately \$300,000, and they had paid approximately \$11,000 for the stock of the three corporations.

In June 1969 the Company issued and sold to Harold M. Yanowitch 100,000 shares and to Theodore W. Kheel and designees 200,000 shares of its Common Stock at \$1.00 per share, and on August 11, 1969 issued and sold to Richard E. Karkow, then an officer and director, 100,000 shares at \$1.00 per share. In March 1971, as one of the conditions of the mutual termination of Mr. Karkow's employment agreement with the Company, it repurchased 60,000 of Mr. Karkow's shares for \$180,000.

In 1970 and 1971 the Company advanced \$306,760 for the purchase of building materials for the use of David Stirling, Jr., all of which has been repaid by Mr. Stirling. In 1970 the Company loaned

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\$57,500 to Gary L. Hammons, all of which has been repaid. These advances were made without interest. It is the Company's intention not to make loans to its officers or directors in the future unless, in its judgment, such loans would be in the best interest of the Company.

The Company has used the services of Johnston Paviour Sibley, Inc., an insurance broker, in the purchase of its insurance policies and has paid \$205,367 in premiums to such agency since August 1968. Harper Sibley, Jr., a director of the Company until February 1971, and an owner of more than 10% of its outstanding shares of Common Stock, was an officer, director and principal stockholder of such corporation which received commissions on such insurance purchases at the established rates.

In 1969 a subsidiary of the Company sold land to, and developed a modular housing complex in Clay, New York for a limited partnership, of which Messrs. David Stirling, Jr. and William G. Stirling were limited partners, holding in the aggregate one-sixth of the partnership interest. A corporation controlled by Harper Sibley, Jr. made a construction loan of \$2,900,000 in connection with such complex, which loan has been repaid. The project has been completed and a total of approximately \$3,766,000 was paid for the modules and services provided.

In 1969 the Company and a subsidiary completed the final portion of construction work on a modular housing development in Henrietta, New York, known as Fairways, Phase I, for a partnership, of which Messrs. David Stirling, Sr., David Stirling, Jr., William G. Stirling and Harper Sibley, Jr. were partners. Approximately \$919,000 was received for such work.

In 1969 the Company and a subsidiary completed performance of a contract for the sale and erection of modules which had been entered into with a corporation all the stock of which is owned by David Stirling, Jr., William G. Stirling and Harold M. Yanowitch. The work was done at a site in Avon, New York for a price of approximately \$443,000.

Under a contract entered into in 1967 with a corporation, all of the stock of which is held by a corporation which was controlled by Messrs. David Stirling, Sr., David Stirling, Jr., William G. Stirling and Harper Sibley, Jr., a subsidiary of the Company did the on-site construction work at a mobile home park in Clay, New York, owned by such corporation. The subsidiary received approximately \$1,394,000 for such work.

In March 1969 a subsidiary of the Company purchased land from a corporation all the stock of which is owned by David Stirling, Jr., William G. Stirling, David Stirling, Sr. and Harper Sibley, Jr. for \$123,500 and sold it to such corporation in July 1969 for \$128,862 (representing initial costs and improvements).

The Company considers the amounts received by it in the above-described transactions in line with amounts customarily charged for similar products and services.

STOCK OPTION PLAN

The Company has a qualified Stock Option Plan under which, as of May 31, 1971, a total of 888,200 shares of Common Stock were reserved for issuance upon the exercise of options granted or to be granted under the Plan (subject to adjustment for stock splits, stock dividends or any similar change affecting the Common Stock). The options are intended to be "qualified stock options" within the meaning of Section 422 of the Internal Revenue Code. The option price in each instance is 100% of the fair market value of the Common Stock on the date the option is granted, and options expire five years from the date of grant.

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In October 1969, Harold M. Yanowitch was granted qualified stock options to purchase 25,000 shares for \$3.00 per share. Since the adoption of the Plan and through May 31, 1971, all directors and officers as a group have been granted options to purchase 195,000 shares at prices ranging from \$3.00 to \$18.00 per share, and in addition, other key employees have been granted options to purchase 335,400 shares at prices ranging from \$3.00 to \$22.00 per share. An officer of the Company has exercised options to purchase 2,000 shares for an aggregate exercise price of \$6,000. The shares had an aggregate market value on the dates of purchase of \$42,775. See Note 10 of Notes to Consolidated Financial Statements.

PRINCIPAL STOCKHOLDERS

Set forth below is certain information as of April 30, 1971, with respect to the beneficial ownership of Common Stock of the Company by each person who owns of record or is known by the Company to own beneficially more than 10% of the outstanding Common Stock of the Company.

<u>Name and Address</u>	<u>Shares of Common Stock Owned</u>	<u>Percent of Outstanding Common Stock</u>
David Stirling, Jr.* 1150 East River Road, Avon, New York	1,909,452	21.6%
William G. Stirling* 1150 East River Road, Avon, New York	1,919,548	21.7
Harper Sibley, Jr.* 200 S.E. First Street Miami, Florida	930,923	10.5
All directors and officers as a group (13 persons)*	4,947,908	55.9

* Includes shares owned beneficially by members of the families of such stockholders.

David Stirling, Jr., William G. Stirling and David Stirling, Sr. may be considered to be "parents" of the Company as that term is defined in the regulations under the Securities Act of 1933.

DESCRIPTION OF CAPITAL STOCK

The following statements are brief outlines of certain provisions of the Company's Restated Certificate of Incorporation (hereinafter called the "Charter"), and the Certificate setting forth the designation and certain of the terms of the Preferred Stock, filed or incorporated by reference as exhibits to the Registration Statement. They do not purport to be complete statements of the provisions referred to, nor do they refer to all provisions of such exhibits, and reference is hereby made to such exhibits for a full statement of all such provisions. No attempt is made to outline or give effect to provisions of statutory or common law.

Under the Charter, the Company is authorized to issue 15,000,000 shares of Common Stock, par value \$.01 per share, and 500,000 shares of Preferred Stock, par value \$1 per share, issuable in one or more series as determined by its Board of Directors which is empowered to fix certain of the terms and provisions of such Preferred Stock. The Board of Directors, acting pursuant to such authority, has assigned the entire 500,000 shares of Preferred Stock to one series, which is the Preferred Stock offered hereby.

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Dividend Rights and Restrictions

The holders of the Preferred Stock are entitled to receive, as and when declared by the Board of Directors out of any funds legally available therefor, cumulative cash dividends at the annual rate shown on the cover page of this Prospectus and no more, payable quarterly on the last day of January, April, July and October before any dividends on the Common Stock shall be paid or declared and set apart for payment. Dividends on the Preferred Stock will be cumulative from the date of issue.

The first dividend on the Preferred Stock offered hereby will be payable on October 31, 1971. Since dividends are cumulative from the date of issue, the amount of this initial dividend will be somewhat less than a full quarterly dividend.

So long as any Preferred Stock remains outstanding, the Company will not make any dividend payment on, or distribution with respect to, or purchase or redeem, the Common Stock unless all past and current dividends on the Preferred Stock have been paid or provided for.

Subject to the foregoing and to the further limitations referred to below, dividends may be paid on the Common Stock as and when declared by the Board of Directors out of any funds legally available therefor.

Liquidation Rights

The holders of the Preferred Stock are entitled to receive, before any distribution or payment may be made to the holders of the Common Stock, (a) in the event of voluntary liquidation, the redemption price applicable at the time in the case of redemption at the option of the Company, and (b) in the event of involuntary liquidation, \$40 per share, together in each case with accrued dividends. Holders of the Common Stock are entitled to receive the remaining assets pro rata to their holdings. Neither a consolidation nor merger of the Company nor the sale of all or substantially all of its assets is deemed to be a liquidation.

Redemption Provisions

The Preferred Stock may be redeemed, as a whole at any time or in part from time to time, at the option of the Company, upon at least thirty days' notice, at a redemption price of \$50 per share if redeemed during the 12 months beginning August 1, 1971 with such redemption price decreasing \$1 per share on August 1 in each year thereafter until August 1, 1981 and thereafter at \$40 per share; together in each case with accrued dividends.

Preferred Stock Conversion Rights

The shares of Preferred Stock are convertible, at the option of the respective holders thereof, into full paid and non-assessable shares of the Company's Common Stock on the basis stated on the cover page of this Prospectus. The conversion price is subject to adjustment in certain events, including the issuance of stock of the Company as a dividend on Common Stock; subdivisions, combinations and reclassifications of the Common Stock; the issuance to all holders of Common Stock of rights or warrants entitling them to subscribe for Common Stock at less than the current market price (as defined); and the distribution to all holders of Common Stock of evidences of indebtedness of the Company or securities or assets (other than dividends or distributions in cash out of earnings). Except as stated in the preceding sentence, the conversion price will not be adjusted for the issuance of Common Stock in exchange for cash, property or services, whether upon the exercise of present or future options or warrants or other-

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wise. Upon conversion, no adjustments will be made for dividends, and fractions of shares will not be issued but cash payments will be made in respect of such fractions on the basis of the then market price of the Common Stock. The right to convert any shares called for redemption will terminate at the close of business on the last business day before the date fixed for redemption unless default shall be made in payment of the redemption price.

Under the provisions of the Tax Reform Act of 1969 amending Section 305 of the Internal Revenue Code of 1954, which deals with distribution of stock dividends and stock rights, it is possible that in certain circumstances the operation of the conversion price adjustment provisions applicable to the Preferred Stock could result in taxable income to the holders of the Preferred Stock or to the holders of Common Stock if the effect of the adjustment to such conversion price is to increase the proportionate interest of the holders of the Preferred Stock or the holders of the Common Stock in the profits or assets of the Company. In the opinion of Shea Gould Ciimenko & Kramer, counsel for the Company, in the absence of Treasury Department regulations clarifying the point, the application of these provisions to Common Stock dividends on the Common Stock, stock splits or combinations should not result in taxable income to either holders of Preferred Stock or Common Stock; but no opinion is expressed as to whether other decreases in the conversion price will or will not be taxable at the time and to the extent of the value of such decreases as a constructive dividend to holders of the Preferred Stock.

Voting Rights and Provisions

The Charter provides, in effect, that the holders of the Common Stock shall have exclusive voting rights for all purposes and that the holders of the Preferred Stock shall have no voting rights except as otherwise may be required by law and except as follows:

(1) If dividends on the Preferred Stock shall be in arrears in an aggregate amount equal to at least four quarterly dividends (whether or not consecutive), the number of directors of the Company shall be increased by two and the holders of the Preferred Stock, voting as a class, shall be entitled to elect two directors. Such right to elect two directors shall continue until all arrearages of dividends on the Preferred Stock shall have been paid and the current dividend thereon shall have been declared and set apart for payment.

(2) The Company shall not, without the vote or written consent of the holders of at least 66⅔% of the Preferred Stock at the time outstanding: (a) authorize or increase the authorized amount of any stock ranking prior to the Preferred Stock, or authorize or increase the authorized amount of any stock or obligations convertible into or evidencing the right to purchase any stock ranking prior to the Preferred Stock; or (b) amend, alter or repeal any of the provisions of the Charter or resolutions of the Board of Directors under their power to fix certain of the terms and provisions of the Preferred Stock, so as adversely to affect the rights, powers or preferences of the Preferred Stock; or (c) merge or consolidate unless the resulting corporation will have no class of stock either authorized or outstanding ranking prior to the Preferred Stock except the same number of shares of stock with the same rights, preferences and powers as the stock of the Company authorized and outstanding immediately preceding such merger or consolidation and unless each holder of Preferred Stock immediately preceding such merger or consolidation shall receive the same number of shares, with the same rights, preferences and powers of the resulting corporation.

(3) The Company shall not, without the vote or written consent of the holders of at least a majority of the Preferred Stock at the time outstanding: (a) increase the authorized amount of

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Preferred Stock or increase the authorized amount of any stock ranking on a parity with the Preferred Stock or increase the authorized amount of any stock or obligations convertible in the right to purchase any stock ranking on a parity with the Preferred Stock, lease or convey all or substantially all of its property or business, or voluntarily liquidate, dissolve or wind up its business, or merge into or consolidate with another corporation.

Each stockholder entitled to vote at any particular time in accordance with the foregoing provisions shall be retired and cancelled and not reissued.

Miscellaneous

Shares of Preferred Stock redeemed at the option of the Company or converted into Common Stock shall be retired and cancelled and not reissued.

Except as hereinabove set forth, no holders of capital stock of any class of the Company are entitled to any pre-emptive, conversion or subscription rights. The outstanding shares of Common Stock are, and the shares of Preferred Stock when issued and sold as set forth herein and the Common Stock issued upon conversion thereof will be, full paid and non-assessable.

The Transfer Agent for the Preferred Stock and the Common Stock is Chemical Bank and the Registrar is Chase Manhattan Bank, N.A.

UNDERWRITING

The Underwriters named below, acting through their Representative, Merrill Lynch, Pierce, Fenner & Smith Incorporated, have severally agreed, subject to the terms and conditions of the Purchase Agreement, to purchase from the Company the number of shares of Preferred Stock set forth opposite their respective names. The Underwriters are committed to purchase all of such shares if any are purchased. Under certain circumstances the commitments of non-defaulting Underwriters may be increased.

<u>Name of Underwriter</u>	<u>Address of Underwriter</u>	<u>Number of Shares to be Purchased</u>
Merrill Lynch, Pierce, Fenner & Smith Incorporated	70 Pine Street New York, N. Y. 10005	150,500
duPont Gore Forgan Incorporated	One Wall Street New York, N. Y. 10005	12,000
Eastman Dillon, Union Securities & Co. Incorporated	One Chase Manhattan Plaza New York, N. Y. 10005	12,000
Goldman, Sachs & Co.	55 Broad Street New York, N. Y. 10004	12,000
Hornblower & Weeks-Hemphill, Noyes	8 Hanover Street New York, N. Y. 10004	12,000
Loeb, Rhoades & Co.	42 Wall Street New York, N. Y. 10005	12,000
Smith, Barney & Co. Incorporated	1345 Avenue of the Americas New York, N. Y. 10019	12,000
Stone & Webster Securities Corporation	90 Broad Street New York, N. Y. 10004	12,000
Bache & Co. Incorporated	100 Gold Street New York, N. Y. 10038	12,000
Shearson, Hammill & Co. Incorporated	14 Wall Street New York, N. Y. 10005	12,000

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<u>Name of Underwriter</u>	<u>Address of Underwriter</u>	<u>Number of Shares to be Purchased</u>
American UBS Corporation	40 Wall Street, 34th Floor New York, N. Y. 10005	7,000
Basle Securities Corporation	120 Broadway New York, N. Y. 10005	7,000
Bear, Stearns & Co.	One Wall Street New York, N. Y. 10005	7,000
Burnham and Company	60 Broad Street New York, N. Y. 10004	7,000
CBWL-Hayden, Stone Inc.	767 Fifth Avenue New York, N. Y. 10022	7,000
Clark, Dodge & Co. Incorporated	140 Broadway New York, N. Y. 10005	7,000
Dominick & Dominick, Incorporated	14 Wall Street New York, N. Y. 10005	7,000
Robert Fleming Incorporated	100 Wall Street New York, N. Y. 10005	7,000
Hallgarten & Co.	44 Wall Street New York, N. Y. 10005	7,000
E. F. Hutton & Company Inc.	One Battery Park Plaza New York, N. Y. 10004	7,000
W. E. Hutton & Co.	14 Wall Street New York, N. Y. 10005	7,000
Ladenburg, Thalmann & Co.	25 Broad Street New York, N. Y. 10004	7,000
Paribas Corporation	40 Wall Street New York, N. Y. 10005	7,000
Reynolds & Co.	120 Broadway New York, N. Y. 10005	7,000
L. F. Rothschild & Co.	99 William Street New York, N. Y. 10038	7,000
Shields & Company Incorporated	44 Wall Street New York, N. Y. 10005	7,000
SoGen International Corporation	595 Madison Avenue New York, N. Y. 10022	7,000
Spencer Trask & Co. Incorporated	60 Broad Street New York, N. Y. 10004	7,000
Tucker, Anthony & R. L. Day	120 Broadway New York, N. Y. 10005	7,000
G. H. Walker & Co. Incorporated	45 Wall Street New York, N. Y. 10005	7,000
Walston & Co., Inc.	77 Water Street New York, N. Y. 10005	7,000
Wood, Struthers & Winthrop Inc.	20 Exchange Place New York, N. Y. 10005	7,000
Estabrook & Co., Inc.	80 Pine Street New York, N. Y. 10005	4,500
Faulkner, Dawkins & Sullivan Securities Inc.	One New York Plaza New York, N. Y. 10004	4,500
Thomson & McKinnon Auchincloss Inc.	2 Broadway New York, N. Y. 10004	4,500
C. E. Unterberg, Towbin Co.	61 Broadway New York, N. Y. 10006	4,500
Bacon, Whipple & Co.	135 South La Salle Street Chicago, Illinois 60603	2,500
Dain, Kalman & Quail, Incorporated	100 Dain Tower Minneapolis, Minnesota 55402	2,500

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<u>Name of Underwriter</u>	<u>Address of Underwriter</u>	<u>Number of Shares to be Purchased</u>
Laird Incorporated	140 Broadway New York, N. Y. 10005	2,500
McDonald & Company	2100 Central National Bank Bldg. Cleveland, Ohio 44114	2,500
Mitchum, Jones & Templeton Incorporated	510 South Spring Street Los Angeles, California 90013	2,500
Putnam, Coffin, Doolittle, Newburger Division of Advest Co.	115 Broadway New York, N. Y. 10006	2,500
Rauscher Pierce Securities Corporation	1200 Mercantile Dallas Bldg. Dallas, Texas 75201	2,500
Suez American Corporation	77 Water Street New York, N. Y. 10005	2,500
Wauling, Lerchen & Co.	Ford Bldg. Detroit, Michigan 48226	2,500
George D. B. Bonbright & Co.	1 West Main Street Rochester, N. Y. 14614	1,500
Bosworth, Sullivan & Company, Inc.	660 Seventeenth Street Denver, Colorado 80202	1,500
Common, Dann & Co., Inc.	502 Marine Trust Bldg. Buffalo, N. Y. 14203	1,500
Moore & Schley, Cameron & Co.	Two Broadway New York, N. Y. 10004	1,500
Murch & Co., Inc.	330 Hanna Bldg. Cleveland, Ohio 44115	1,500
Newhard, Cook & Co.	400 Olive Street St. Louis, Missouri 63102	1,500
Underwood, Neuhaus & Co. Incorporated	724 Travis Street Houston, Texas 77002	1,500
Wood, Walker & Co.	63 Wall Street New York, N. Y. 10005	1,500
Banque de Bruxelles S.A.	2 Rue de la Regence Brussels, Belgium	7,000
Banque de Neuflize, Schlumberger, Maillet	12 Place de la Bourse Paris 2E, France	7,000
Banque Rothschild	21, Rue Lafrite Paris 9, France	7,000
Den Norske Creditbank	21 Kirkegaten Oslo, Norway	7,000
S. G. Warburg & Co. Limited	30 Gresham Street London, EC2P 2EB, England	7,000
Total		<u>500,000</u>

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The Representative of the Underwriters has advised the Company that sales of Preferred Stock to certain dealers may be made at a concession of \$1.20 per share and that the Underwriters may allow, and such dealers may reallow, discounts not in excess of \$.30 per share on sales to certain other dealers.

The officers and directors of the Company owning 1,000 or more shares and a stockholder owning 93,400 shares have agreed that, during the period of 90 days from the date of this Prospectus, they will not, without the consent of the Representative of the Underwriters, directly or indirectly, sell, grant any option for the sale of or otherwise dispose of any Common Stock of the Company owned by such persons.

LEGAL OPINIONS

The legality of the securities offered hereby is being passed upon for the Company by Shea Gould Climenko & Kramer, 330 Madison Avenue, New York, New York 10017, and for the Underwriters by Brown, Wood, Fuller, Caldwell & Ivey, 70 Pine Street, New York, New York 10005. A member of Shea Gould Climenko & Kramer participating in this matter and his family beneficially own an aggregate of 600 shares of Common Stock of the Company.

EXPERTS

The financial statements and schedules included herein and elsewhere in the Registration Statement, so far as they pertain to the two years ended July 31, 1970 and the seven month period ended February 28, 1971, have been included herein and in the Registration Statement in reliance upon the respective reports of Harris, Kerr, Forster & Company and Peat, Marwick, Mitchell & Co., independent certified public accountants, and upon the authority of said firms as experts.

Government's Exhibit 12

ACCOUNTANTS' REPORT

THE BOARD OF DIRECTORS
STIRLING HOMEX CORPORATION:

We have examined the consolidated balance sheet of Stirling Homex Corporation and consolidated subsidiaries as of February 28, 1971 and the related statements of income, retained earnings, additional paid-in capital and source and application of funds for the seven months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the consolidated financial position of Stirling Homex Corporation and consolidated subsidiaries at February 28, 1971, and the results of their operations and source and application of funds for the seven months then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & Co.

Rochester, New York
March 22, 1971

Government's Exhibit 12

ACCOUNTANTS' REPORT

THE BOARD OF DIRECTORS
STIRLING HOMEX CORPORATION:

We have examined the consolidated statements of income, retained earnings, additional paid-in capital and source and application of funds of Stirling Homex Corporation and consolidated subsidiaries for the two years ended July 31, 1970. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, such financial statements present fairly the consolidated results of operations, changes in additional paid-in capital and source and application of funds, of Stirling Homex Corporation and consolidated subsidiaries, for the two years ended July 31, 1970, in conformity with generally accepted accounting principles applied on a consistent basis.

HARRIS, KERR, FORSTER & COMPANY

New York, New York
September 21, 1970

Government's Exhibit 12

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

	February 28, 1971	April 30, 1971 (Unaudited)
Current assets:		
Cash (Note 11)	\$ 5,059,564	\$ 4,756,747
Receivables (Notes 1 and 3)	26,962,235	30,369,149
Inventories:		
Raw materials, work in process and salable merchandise at lower of cost (first-in, first-out) or replacement market (Note 5)	974,660	2,321,011
Land held for development or sale, at cost (Note 5)	1,356,419	1,367,194
Prepaid expenses and other current assets	439,259	246,669
Prepaid and deferred income taxes (Note 9)	557,561	—
Total current assets	<u>35,849,698</u>	<u>40,060,770</u>
Investment in and advance to unconsolidated subsidiary (Note 1)	222,333	221,516
Long-term receivables (Note 4)	341,124	533,674
Property, plant and equipment at cost, less accumulated depreciation and amortization (February 28, 1971—\$449,950; April 30, 1971— \$543,572) (Notes 6 and 8)	8,779,439	9,090,341
Deferred charges, less accumulated amortization (February 28, 1971— \$367,718; April 30, 1971—\$451,790) (Note 7)	<u>1,978,987</u>	<u>2,553,273</u>
	<u>\$47,371,581</u>	<u>\$52,459,574</u>

See accompanying Notes to Consolidated Financial Statements.

Government's Exhibit 12

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

LIABILITIES AND STOCKHOLDERS' EQUITY

	February 28, 1971	April 30, 1971 (Unaudited)
Current liabilities:		
Current portion of long-term debt (Note 8)	\$ 314,588	\$ 307,458
Notes payable to banks—unsecured (February 28, 1971—6¼ to 7¼%; April 30, 1971—5¼ to 6¼%) (Note 11)	29,700,000	33,700,000
Accounts payable—trade	2,206,633	2,346,211
Accrued interest	280,929	248,066
Accrued expenses and other liabilities	253,041	282,691
Current and deferred income taxes (Note 9)	—	286,370
Total current liabilities	<u>32,765,191</u>	<u>37,170,796</u>
Long-term debt (Note 8)	352,877	320,569
Deferred income taxes (Note 9)	1,318,531	1,419,564
Option deposit on land contract (Note 5)	210,000	210,000
Stockholders' equity:		
Preferred stock:		
Authorized 500,000 shares—\$1.00 par value; issued—none ...	—	—
Common stock (Note 10):		
Authorized 15,000,000 shares—\$.01 par value; shares issued February 28, 1971—8,907,400; April 30, 1971—8,909,000	89,074	89,090
Additional paid-in capital	8,476,638	8,481,422
Retained earnings	4,159,270	4,948,883
	<u>12,724,982</u>	<u>13,519,395</u>
Less treasury stock at cost (60,000 shares)	—	180,750
Total stockholders' equity	<u>12,724,982</u>	<u>13,338,645</u>
Commitments and contingencies (Note 11)		
	<u>\$47,371,581</u>	<u>\$52,459,574</u>

Government's Exhibit 12

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

	Seven months ended	
	February 28, 1970 (Unaudited) (Note 1)	February 28, 1971
Revenues:		
Sales—trade(A):		
Manufacturing division	\$ 7,786,620	\$12,492,770
Installation division	3,573,569	5,136,788
Sales to affiliates(A) (D):		
Installation division	459,941	—
Equity in undistributed net income of subsidiary (Note 1)	—	104,928
Total revenues	<u>\$11,820,130</u>	<u>\$17,734,486</u>
Cost and Expenses:		
Cost of sales(A):		
Manufacturing division	\$ 4,047,006	\$ 8,471,159
Installation division	3,420,337	4,724,067
Administrative and selling expenses	1,514,029	1,642,063
Interest—long term debt	5,862	18,943
—other	298,078	856,654
Total costs and expenses	<u>9,285,312</u>	<u>15,712,886</u>
Income before Federal and state income taxes	<u>\$ 2,534,818</u>	<u>\$ 2,021,600</u>
Income taxes (Note 9):		
Federal—current	969,000	194,000
—deferred	267,000	671,000
State—current	143,000	26,000
—deferred	34,000	89,000
	<u>\$ 1,413,000</u>	<u>\$ 980,000</u>
Net income	<u>\$ 1,121,818</u>	<u>\$ 1,041,600</u>
Average shares outstanding(C) (Note 13)	<u>8,472,400</u>	<u>8,902,250</u>
Earnings per common share(C) (Note 13)	<u>\$.13</u>	<u>\$.12</u>

Alphabetical references refer to Notes to the Consolidated Statement of Income on page 6 of the Prospectus.
See accompanying Notes to Consolidated Financial Statements.

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STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF ADDITIONAL PAID-IN CAPITAL

	Year Ended		Seven Months Ended	Nine months Ended
	July 31, 1969	July 31, 1970	February 28, 1971	April 30, 1971 (Unaudited)
Balance at beginning of period	\$ —	\$1,949,813	\$8,446,738	\$8,446,738
Excess of proceeds over par value of 400,000 shares of common stock issued in public offering (less net expenses of \$118,285)	—	5,981,715	—	—
Excess of proceeds over par value of shares of common stock issued in private sales (less applicable expenses) (1970—129,000 shares; 1969—1,968,400 shares)	1,910,949	515,210	—	—
Stock issued at par for cash, patents, copyrights and processes (the last three carried at \$1) 1969 — 2,400,000 shares	—	—	—	—
Excess of book value of assets acquired over par value of 4,000,000 shares of common stock issued (Note 1)	101,627	—	—	—
To increase par value of common stock outstanding as a result of four-for-one stock split	(62,763)	—	—	—
Excess of proceeds over par value of common shares issued under stock options (Feb. 28, 1971 — 10,000 shares; April 30, 1971 — 11,600 shares) (Note 10)	—	—	29,900	34,684
Balance at end of period	<u>\$1,949,813</u>	<u>\$8,446,738</u>	<u>\$8,476,638</u>	<u>\$8,481,422</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Balance at beginning of period	\$ —	\$1,082,481	\$3,117,670	\$3,117,670
Net income	1,082,481	2,035,189	1,041,600	1,831,213
Balance at end of period	<u>\$1,082,481</u>	<u>\$3,117,670</u>	<u>\$4,159,270</u>	<u>\$4,948,883</u>

See accompanying Notes to Consolidated Financial Statements.

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STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Year Ended		Seven Months Ended	Nine Months Ended
	July 31, 1969	July 31, 1970	February 28, 1971	April 30, 1971 (Unaudited)
Source of funds:				
Net income	\$1,082,481	\$2,035,189	\$ 1,041,600	\$1,831,213
Charges to income not requiring funds:				
Depreciation and amortization ..	70,085	220,227	220,227	314,539
Amortization of deferred charges	34,002	133,288	200,428	284,500
Deferred income taxes	402,489	184,776	731,266	832,299
Undistributed net income of finance subsidiary (Note 1)	—	—	(104,928)	(84,434)
Funds derived from operations	1,589,057	2,573,480	2,088,593	3,178,117
Net proceeds from public offering of common stock	—	5,985,715	—	—
Net proceeds from private sale of common stock	1,921,870	516,500	—	—
Net proceeds from common stock issued under qualified stock option plan ..	—	—	30,000	34,800
Long-term borrowings	2,549,534	124,677	51,286	51,286
Decrease in long-term receivables	—	43,421	—	7,450
Option deposit received on land contract (Note 5)	—	—	210,000	210,000
Repayment of advances to unconsolidated subsidiary	—	—	57,757	75,163
Total source of funds	6,060,461	9,243,793	2,437,636	3,556,816
Application of funds:				
Purchase of treasury stock	—	—	—	180,750
Additions to property, plant and equipment	702,932	4,422,506	3,753,921	4,159,135
Additions to deferred charges	376,306	735,093	1,235,306	1,893,664
Reduction in long-term debt	164,700	3,052,140	194,898	227,206
Increase in noncurrent portion of long-term receivables	584,546	—	—	—
Investment in and advances to unconsolidated subsidiary	—	—	175,162	212,245
Total application of funds ..	1,828,484	8,209,739	5,359,287	6,673,000
Increase (decrease) in working capital ..	\$4,231,977	\$1,034,054	\$ (2,921,651)	\$ (3,116,184)

(Continued)

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STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN WORKING CAPITAL (Continued)

	Year Ended		Seven Months Ended	Nine Months Ended
	July 31, 1969	July 31, 1970	Feb. 23, 1971	April 30, 1971
Increase (decrease) in current assets:				
Cash	\$1,418,498	\$ 1,357,917	\$ 2,231,487	\$ 1,978,670*
Receivables	3,177,642	12,286,631	11,476,116	15,383,030*
Inventories	1,301,067	1,236,215	(920,145)	436,981
Prepaid expenses and other current assets	65,616	34,973	314,494	121,904
Prepaid and deferred income taxes	—	—	557,561	—
	<u>\$5,962,823</u>	<u>\$14,915,736</u>	<u>\$13,709,513</u>	<u>\$17,920,585</u>
Increase (decrease) in current liabilities:				
Current portion of long-term debt and notes payable to banks	\$ 857,399	\$10,721,700	\$17,981,552	\$21,974,422
Accounts payable and accrued expenses	490,456	2,155,635	36,950	163,315
Current and deferred income taxes	382,991	1,004,347	(1,387,338)	(1,100,968)
	<u>\$1,730,846</u>	<u>\$13,881,582</u>	<u>\$16,631,164</u>	<u>\$21,036,769</u>
Increase (decrease) in working capital ..	<u>\$4,231,977</u>	<u>\$ 1,034,054</u>	<u>\$(2,921,651)</u>	<u>\$(3,116,184)</u>

* During the nine months ended April 30, 1971, the Company assigned \$3,000,000 of its accounts receivable, without recourse, to an unconsolidated subsidiary for which that subsidiary paid \$3,000,000 to the Company. See Note 1.

See accompanying Notes to Consolidated Financial Statements.

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STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Information relating to the nine months ended April 30, 1971 is unaudited)

1. PRINCIPLES OF CONSOLIDATION

The Company was incorporated on July 22, 1968 and commenced operations on August 1, 1968. In connection with its organization, the Company issued 4,000,000 shares of its common stock for the outstanding stock of certain predecessor companies. This transaction has been treated as a purchase and the results of operations of these companies have been included in the consolidated statement of income from the date of acquisition. The value ascribed to the stock issued was equal to the tangible net assets of these companies.

The consolidated financial statements include the accounts of the Company and its subsidiaries except for U.S. Shelter Corporation, its financing subsidiary (all of which are wholly-owned). The Company carries its investment in all subsidiaries at equity in the underlying net assets. On consolidation, all significant accounts and transactions with consolidated subsidiaries have been eliminated.

With respect to the figure for the seven months ended February 28, 1970 which are unaudited, the management of the Company believes that all adjustments (none of which were other than normal recurring accruals) necessary to a fair statement of the results for such interim period have been included.

The following are condensed financial statements of the unconsolidated financing subsidiary:

BALANCE SHEET

	Feb. 28, 1971	Apr. 30, 1971
ASSETS		
Cash	\$ 27,898	\$ 3,690
Accounts receivable (Notes a and b)	300,000	3,300,019
Other assets	11,167	10,760
	<u>\$339,065</u>	<u>\$3,314,469</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Note payable—bank (7%) (Note a)	—	\$3,000,000
Payables and accrued expenses (primarily income taxes payable)	\$116,732	92,953
Due to parent company	17,405	37,082
Stockholder's equity	204,928	184,434
	<u>\$339,065</u>	<u>\$3,314,469</u>

STATEMENT OF INCOME

	From Date of Incorporation (September 25, 1970) to Feb. 28, 1971	Apr. 30, 1971
Finance income (Note c)	\$300,000	\$ 300,000
General and administrative expenses	33,072	125,788
	216,928	174,212
Income taxes	112,000	89,778
NET INCOME	<u>\$104,928</u>	<u>\$ 84,434</u>

Notes:

(a) The subsidiary has obtained an unsecured \$15,000,000 line of credit from a bank. These funds are being used in financing transactions involving customers of the Company. The Company has not guaranteed this line of credit.

(b) At April 30, 1971, accounts receivable of U.S. Shelter include \$3,000,000 which relates to accounts assigned to U.S. Shelter without recourse by the Company for which U.S. Shelter remitted cash in that amount to the Company. Interest equal to the rate charged on U.S. Shelter's line of credit will be charged to the Company.

(c) Finance income represents a fee earned under an agreement with a non-affiliated customer. The services rendered by U. S. Shelter included obtaining a commitment from a Federal agency for permanent financing of the sponsor's projects. The fee will be substantially collected within one year.

Government's Exhibit 12

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
 (Information relating to the nine months ended April 30, 1971 is unaudited)

2. CHANGES IN ACCOUNTING PRINCIPLES

During the year ended July 31, 1970, the Company changed its method of recording the installation portion of sales contracts from the completed contract method to the percentage-of-completion method. Although this change had no significant effect on results of operations for fiscal years 1969 and 1970, such results have been retroactively restated to provide consistent application of this change.

3. RECEIVABLES

The Company enters into various modular housing sale contracts which contain an allocation of the sales price between modules (based upon published price lists) and installation work. The contracts generally provide for payment upon completion and receipt of all approvals necessary for occupancy or for payment upon completion of each respective phase. "Unbilled" receivables represent amounts included in sales on contracts in process for which billings will be rendered in the future in accordance with the contracts.

Receivables consist of:

	Feb. 28, 1971	Apr. 30, 1971
Contract receivables:		
Billed	\$ 7,801,602	\$10,050,112
Unbilled	18,888,192	20,572,492
Total	26,689,794	30,622,604
Current portion of long-term receivables (Note 4)	10,000	10,000
Other receivables	262,441	236,545
Total receivables	<u>\$26,962,235</u>	<u>\$30,869,149</u>

Substantially all sales are to local housing authorities and sponsors who qualify for financial assistance from Federal agencies of the U. S. Government. In light of this, no provision for doubtful accounts is considered necessary.

See the condensed financial statements of U. S. Shelter Corporation in note 1 for information with respect to receivables assigned by the Company to U. S. Shelter Corporation.

4. LONG-TERM RECEIVABLES

Long-term receivables consist of:

	Feb. 28, 1971	Apr. 30, 1971
Mortgages receivable:		
Mortgage due June 1, 1974—payments of \$2,500 due quarterly with interest at the prime commercial rate in effect on the interest payment date	\$249,124	\$241,674
Mortgage due June 30, 1975—payments of \$25,000 due June 30, 1973 and June 30, 1974 and the balance due June 30, 1975. Interest payable annually at the prime commercial rate in effect on the interest payment date	302,000	302,000
	551,124	543,674
Less installments due within one year	10,000	10,000
	<u>\$541,124</u>	<u>\$533,674</u>

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STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Information relating to the nine months ended April 30, 1971 is unaudited)

During the year ended July 31, 1969, a subsidiary of the Company sold two parcels of land for a profit before income taxes of \$425,956. The sales accounted for approximately 18% of the Company's net income for the year. Payment of the purchase price is secured by the mortgages enumerated in the table above.

5. INVENTORIES

(a) Inventories of the Company consisted of the following:

	Total	Saleable Merchandise	Work in Process	Raw Materials
July 31, 1969	\$1,137,299	\$ 653,872	\$ 12,000	\$ 471,427
July 31, 1970	2,167,603	1,064,408	139,531	963,664
Feb. 28, 1971	974,660	—	241,417	733,243
April 30, 1970	2,982,752	1,910,995	45,000	1,026,757
April 30, 1971	<u>\$2,321,011</u>	<u>\$ 852,949</u>	<u>\$ 321,398</u>	<u>\$1,146,664</u>

(b) Land held for development or sale is recorded at cost plus real estate taxes, mortgage interest and other related carrying costs. The land was acquired by the Company as a part of the transaction described in paragraph one of Note 1.

The Company has entered into a contract to sell a parcel of the land with costs of \$673,017 for a sale price of \$2,100,000. The Company has received a down payment of \$210,000 which has been accounted for as an option deposit.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following:

	Feb. 28, 1971	April 30, 1971
Land and land improvements	\$1,066,654	\$1,123,681
Buildings	4,433,229	4,813,487
Machinery and equipment	1,370,419	1,517,063
Furniture, fixtures and office equipment	685,223	905,031
Other	92,171	108,754
Construction in progress	1,581,693	1,165,897
	<u>9,229,389</u>	<u>9,633,913</u>
Less accumulated depreciation and amortization ..	<u>449,950</u>	<u>543,572</u>
	<u>\$8,779,439</u>	<u>\$9,090,341</u>

Buildings are depreciated on the straight-line method over an estimated useful life of forty-five years. All other items are depreciated on the straight-line method over estimated useful lives ranging from one to twenty years. Maintenance and repairs are charged to expense as incurred. Renewals and betterments are capitalized. When properties are retired, sold or otherwise disposed of, the cost and the

Government's Exhibit 12

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(Information relating to the nine months ended April 30, 1971 is unaudited)

related accumulated depreciation and amortization is removed from the accounts, and gains and losses resulting from such transactions are reflected in income.

7. DEFERRED CHARGES

The unamortized balances of deferred charges consist of:

	Amortization Period	Unamortized Balance (b)		Net Increase from Aug. 1, 1970 to Apr. 30, 1971
		Feb. 28, 1971	Apr. 30, 1971	
Patents pending and trademarks	Legal Life	\$ 123,508	\$ 140,567	\$ 51,967
Training and professional development	3 years	314,356	406,814	258,178
Research and development	5 years	381,880	490,099	405,603
Project and production start-up costs	2 to 5 years	880,091	930,039	427,517
Property acquisition costs	(a)	221,057	425,227	306,449
Miscellaneous	1 to 5 years	58,095	160,527	159,450
		<u>\$1,978,987</u>	<u>\$2,553,273</u>	<u>\$1,609,164</u>

(a) Expenditures in connection with property acquisition will be added to the cost of property subsequently acquired.

(b) See Note 12.

In the event of project abandonment or other circumstances causing a loss of value to deferred items, the related unamortized costs are charged to current operations.

The increase in deferred charges is principally attributable to continuing development of the Company's high-rise apartment system, low-rise townhouses and apartment/hotel units, installation and start-up of computer systems, plant start-up costs for the Company's new manufacturing facility in Avon, applications for U. S. and foreign patents and trademarks, and costs attributable to the issuance of the Preferred Stock offered hereby. These additions to deferred charges other than costs attributable to the issuance of the Preferred Stock, represent approximately 39% of income before Federal and state income taxes for the nine months ended April 30, 1971.

8. LONG-TERM DEBT

Long-term debt consists of the following:

	Feb. 28, 1971	Apr. 30, 1971
Mortgages maturing at various dates through December 31, 1976 and bearing interest at rates ranging from 4 1/4% to 6%	\$541,594	\$516,185
Installment contracts and lease purchase agreements maturing at various dates through August, 1974	125,871	111,842
	<u>667,465</u>	<u>628,027</u>
Less payments due within one year	314,588	307,458
	<u>\$352,877</u>	<u>\$320,569</u>

Land, buildings and equipment with a net book value of \$1,684,000 and \$1,682,000 as of February 28, 1971 and April 30, 1971, respectively, were encumbered under the above agreements.

Government's Exhibit 12

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Information relating to the nine months ended April 30, 1971 is unaudited)

The required principal payments on long-term debt for the next five years are as follows:

	Feb. 28, 1971	Apr. 30, 1971
1973	\$212,936	\$208,752
1974	95,845	70,950
1975	23,278	21,862
1976	17,330	15,611
1977	3,488	3,394

9. INCOME TAXES

Deferred taxes relate principally to depreciation, deferred and capitalized costs, installation contracts and installment sales. None of the Company's tax returns have been examined by the Internal Revenue Service.

10. STOCK OPTIONS

The Company has a qualified stock option plan in effect whereby options to purchase shares of common stock may be granted to officers and key employees at not less than the fair market value on the date of grant. During February, 1971, authorized shares under the plan were increased from 400,000 to 900,000 shares. Options expire five years after the date of grant and are exercisable in cumulative installments of 20% after one year. A summary of activity follows:

(1) Options outstanding at April 30, 1971:

Period granted	Shares (net of cancellations)	Option and market price at grant per share		Total
		From	To	
Year ended July 31, 1970	333,800	\$ 3.00	\$16.50	\$2,973,100
Seven months ended Feb. 28, 1971	172,000	15.50	19.75	2,996,750
Two months ended April 30, 1971	29,000	22.00	25.75	664,250
	<u>534,800</u>			<u>\$6,634,100</u>

	Shares	Option value	Market value	Option price	Market price
(2) Shares for which options first became exercisable:					
Seven months ended Feb. 28, 1971	53,760	\$396,720	\$1,165,807	\$ 3.00 to \$18.75	to \$23.75
Two months ended April 30, 1971	—	—	—	—	—
	<u>53,760</u>	<u>\$396,720</u>	<u>\$1,165,807</u>		
(3) Shares for which options were exercised:					
Seven months ended Feb. 28, 1971	10,000	\$ 30,000	\$ 198,692	\$ 3.00	\$18.00 to \$21.50
Two months ended April 30, 1971	1,600	4,800	35,400	\$ 3.00	\$22.13
	<u>11,600</u>	<u>\$ 34,800</u>	<u>\$ 234,092</u>		

No entries are recorded with respect to options until exercised at which time the excess of the option price over the par value of common stock issued is credited to paid-in surplus.

Government's Exhibit 12

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Information relating to the nine months ended April 30, 1971 is unaudited)

11. COMMITMENTS AND CONTINGENCIES

An action has been brought to enjoin the use of the word "Homex" by the Company. In the opinion of legal counsel for the Company, the plaintiff will be unsuccessful in obtaining the relief which it seeks.

On January 21, 1970, the State of New York asserted a proposed deficiency in sales and use taxes against the Company in the aggregate net amount of \$147,233, excluding penalties and interest. A protest to this proposed deficiency was filed on May 21, 1970, and in the opinion of legal counsel there appears to be a valid defense against the claim.

A complaint was served on March 2, 1971, in an action against the Company and another party, a broker, to recover damages allegedly suffered by a former shareholder of restricted shares of Company common stock. It is claimed that the Company refused, in concert with the other party, to permit the transfer of plaintiff's stock except at a price substantially below market. Compensatory damages in the amount of \$1,575,000 and treble damages are alleged. In the opinion of management, the suit can be successfully defended. In the opinion of counsel, the claim for treble damages is without merit.

The Company is committed to construct a new manufacturing facility. See "Properties—Mississippi Plant".

At February 28, 1971, and April 30, 1971, the Company had leases on various equipment and office facilities with terms ranging from two to six years. Minimum annual rentals under such leases amount to approximately \$390,000.

Notes payable consist of 90 day unsecured notes to eleven banks bearing interest at a rate $\frac{1}{4}\%$ above the respective bank's best rate on the date of issue. The Company is required to maintain average annual compensating balances at each of these banks equal to approximately 15% to 20% of the outstanding indebtedness to such bank.

Government's Exhibit 12

STIRLING HOMEX CORPORATION AND CONSOLIDATED SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Information relating to the nine months ended April 30, 1971 is unaudited)

12. SUPPLEMENTARY PROFIT AND LOSS INFORMATION

	Year ended July 31, 1969	Year ended July 31, 1970	Seven months ended February 28, 1971	Nine months ended April 30, 1971
Maintenance and Repairs:				
Cost of sales	\$ 22,221	\$ 84,386	\$122,826	\$165,748
Other	257	8,479	21,007	51,383
	<u>22,478</u>	<u>92,865</u>	<u>143,833</u>	<u>217,131</u>
Depreciation and Amortization:				
Cost of sales	67,985	193,804	145,936	191,175
Other	2,100	26,423	74,291	123,364
	<u>70,085</u>	<u>220,227</u>	<u>220,227</u>	<u>314,539</u>
Amortization of Deferred Charges:				
Cost of sales	—	—	—	—
Other	34,002	133,288	200,428	284,500
	<u>34,002</u>	<u>133,288</u>	<u>200,428</u>	<u>284,500</u>
Taxes Other than Taxes on Income:				
Payroll taxes:				
Cost of sales	89,846	187,190	181,765	259,975
Other	7,540	26,757	78,448	109,106
Land cost	476	—	—	—
	<u>97,862</u>	<u>213,947</u>	<u>260,213</u>	<u>369,081</u>
Property Taxes:				
Cost of sales	6,347	18,594	7,502	11,724
Other	—	7,781	16,952	22,300
Land cost	18,452	23,762	43,648	43,648
	<u>24,799</u>	<u>50,137</u>	<u>68,102</u>	<u>77,672</u>
Rents:				
Cost of sales	3,386	76,528	120,253	200,871
Other	11,445	112,389	323,974	445,656
	<u>14,831</u>	<u>189,417</u>	<u>444,227</u>	<u>646,527</u>

There were no management fees, service fees or royalties paid during the above periods.

13. EARNINGS PER SHARE

Earnings per common share are based upon the weighted average number of shares outstanding during the periods presented after giving retroactive effect to the four-for-one stock split effected in February 1970. Stock options outstanding during these periods have not been included in this computation since the effect of their inclusion would be insignificant.

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500,000 Shares

Stirling Homex Corporation

\$2.40 Cumulative Convertible
Preferred Stock
(Par Value \$1 Per Share)

PROSPECTUS

Merrill Lynch, Pierce, Fenner & Smith
Incorporated

July 29, 1971

Government's Exhibit 12

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

SECURITIES AND EXCHANGE COMMISSION

RECEIVED

JUL 29 1971

Item 23. Other Expenses of Issuance and Distribution.

The expenses in connection with the issuance and distribution of securities being registered, which will be borne by the Company, other than underwriting discounts and commissions, are as follows:

Registration fee	\$ 4,100
NASD filing fee	2,150
Printing	64,500
Accounting fees and expenses	90,000
Legal fees and expenses	40,000
Blue Sky fees and expenses	15,000
Transfer Agent and Registrar fees	5,000
Miscellaneous	4,250
Total	\$225,000

Item 31. Financial Statements and Exhibits.

(a) Financial Statements:

Included in Prospectus:

Accountants' Reports

Consolidated Balance Sheet at February 28, 1971 and April 30, 1971 (unaudited)
Consolidated Statement of Income for the two years ended July 31, 1970 and nine month periods ended April 30, 1970 (unaudited) and April 30, 1971 (unaudited)

Consolidated Statement of Income for the seven month periods ended February 28, 1970 (unaudited) and February 28, 1971

Consolidated Statements of Retained Earnings and Additional Paid-in Capital for the two years ended July 31, 1970, the seven month period ended February 28, 1971 and the nine month period ended April 30, 1971 (unaudited)

Consolidated Statement of Source and Application of Funds for the two years ended July 31, 1970, the seven month period ended February 28, 1971, and the nine month period ended April 30, 1971 (unaudited)

Notes to Consolidated Financial Statements

Included in Part II of the Registration Statement:

Accountants' Consents and Reports on Schedules

Schedule
Number

Title

II. Amounts due from Directors, Officers and Principal Holders of Equity Securities other than Affiliates

V. Property, Plant and Equipment

VI. Reserves for Depreciation and Amortization of Property, Plant and Equipment

VII. Intangible Assets

IX. Bonds, Mortgages and Similar Debt

All other schedules and certain columns in the schedules listed above are omitted as the required information is inapplicable or the information is presented in the financial statements or related notes.

The financial statements of the registrant are omitted as it is primarily an operating company and all subsidiaries included in the consolidated financial statements are wholly owned.

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Government's Exhibit 12

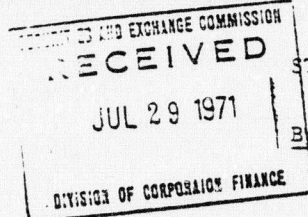
(b) Exhibits:

- 1 —Forms of Agreement Among Underwriters, Purchase Agreement and Selected Dealers Agreement
- 3c —Certificate to be filed pursuant to Section 151 of the General Corporation Law of Delaware
- 13h —Table of ratio of earnings to fixed charges and preferred dividends.

Government's Exhibit 12

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this Amendment to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in New York, New York, on the 29th day of July, 1971.



STIRLING HOMEX CORPORATION

By Harold M. Yanowitch
(Harold M. Yanowitch
Executive Vice President)

Pursuant to the requirements of the Securities Act of 1933, this Amendment to the Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
DAVID STIRLING, JR.	Chairman of the Board of Directors and Chief Executive Officer, Director (Principal Executive Officer)	July 28, 1971
PAUL M. KUVEKE, JR.	Treasurer (Principal Financial Officer)	
EDWIN J. SCHULZ	Controller (Principal Accounting Officer)	
WILLIAM G. STIRLING	Director	
HAROLD M. YANOWITCH	Director	
DAVID STIRLING, SR.	Director	
C. W. MARSHALL	Director	
THEODORE W. KHEEL	Director	
JOHN W. CASTELLUCCI	Director	

Harold M. Yanowitch
(Harold M. Yanowitch, individually and as attorney-in-fact for all the persons named above.)

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ACCOUNTANTS' CONSENT AND REPORT ON SCHEDULES

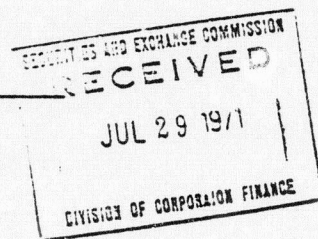
The Board of Directors
STIRLING HOMEX CORPORATION

The examination referred to in our report dated March 22, 1971 included the related supporting schedules for the seven months ended February 28, 1971, included in the Registration Statement. In our opinion, such schedules present fairly the information set forth therein.

We consent to the use of our reports included herein and to the references to our firm under the headings "Consolidated Statement of Income" and "Experts" in the Prospectus.

Peat, Marwick, Mitchell & Co.
PEAT, MARWICK, MITCHELL & CO.

Rochester, New York
July 28, 1971



The Board of Directors
STIRLING HOMEX CORPORATION

The examination referred to in our report dated September 21, 1970 included the related supporting schedules for the two years ended July 31, 1970, included in the Registration Statement. In our opinion, such schedules present fairly the information set forth therein.

We consent to the inclusion of the following in the Registration Statement to be used in registering, under the Securities Act of 1933, preferred stock, par value \$1.00, and common stock, par value \$.01, of Stirling Homex Corporation:

(1) our report dated September 21, 1970, upon the consolidated statements of income, additional paid-in capital, retained earnings and source and application of funds of Stirling Homex Corporation and consolidated subsidiaries for the two years ended July 31, 1970.

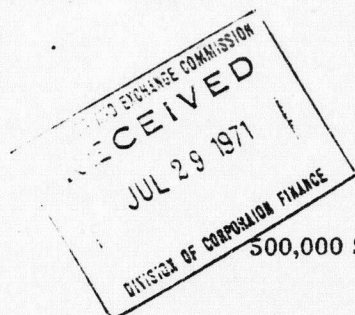
(2) the use of our name in said Registration Statement under the captions "Statement of Income" and "Experts".

Harris, Kerr, Forster & Company
HARRIS, KERR, FORSTER & COMPANY

New York, New York
July 28, 1971

Government's Exhibit 12

EXHIBIT 1



STIRLING HOMEX CORPORATION
(a Delaware corporation)

500,000 Shares of \$2.40 Cumulative Convertible Preferred Stock
(Par Value \$1 Per Share)

AGREEMENT AMONG UNDERWRITERS

July 29, 1971

MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

70 Pine Street
New York, N. Y. 10005

DEAR SIRs:

We confirm our agreement with respect to the purchase, severally, from Stirling Homex Corporation, a Delaware corporation (the "Company"), of an aggregate of 500,000 shares of \$2.40 Cumulative Convertible Preferred Stock, par value \$1 per share, of the Company (the "Preferred Stock") by you and the other Underwriters referred to in a proposed purchase agreement (the "Purchase Agreement"), a copy of which is attached hereto as Exhibit A, and the carrying, sale and distribution of the Preferred Stock. We will purchase from the Company the number of shares of Preferred Stock set forth opposite our name in Schedule A to the Purchase Agreement. It is understood that changes may be made in those who are to be Underwriters and in the respective numbers of shares of the Preferred Stock to be purchased by them, but that the number of such shares to be purchased by us as set forth in Schedule A to the Purchase Agreement will not be changed without our consent except as provided for herein or in the Purchase Agreement.

We confirm that our net capital and our ratio of aggregate indebtedness to net capital are such that we may, in accordance with and pursuant to Rule 15c3-1, promulgated by the Securities and Exchange Commission (the "Commission") under the Securities Exchange Act of 1934, agree to purchase the number of shares of the Preferred Stock set forth opposite our name in Schedule A to the Purchase Agreement (together with any increase in such number provided for herein or in the Purchase Agreement).

SECTION 1. Authority of the Representative. We authorize you, as our Representative, to execute the Purchase Agreement on our behalf and to take such action as may be necessary or advisable to carry out the Purchase Agreement, this Agreement and the purchase, carrying, sale and distribution of the Preferred Stock, including authority to agree to any waiver or modification of the terms and provisions of the Purchase Agreement (either before or after its execution) which in your judgment is not material.

SECTION 2. Sale to Public, Public Offering Price, and Purchase Price. It is expected that the sale of the Preferred Stock to the public will commence as soon after the Registration Statement has become effective as you may deem advisable, and on the terms set forth in the Prospectus. We will not sell any shares of the Preferred Stock until they are released by you for that purpose.

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The initial public advertisement will appear on such date and will include the names of such of the Underwriters as you may determine. Thereafter any Underwriter may advertise at his own risk and expense.

The purchase price to be paid by the Underwriters for the Preferred Stock is set forth in Section 2 of the Purchase Agreement. The initial public offering price of the Preferred Stock will be \$40 per share plus accrued dividends, if any, from the date of delivery of the Preferred Stock to the Underwriters. After the initial public offering, the public offering price and the concession and discount therefrom may be varied by you by reason of market conditions.

SECTION 3. Offering to Selected Dealers and Others. We authorize you, for our account, to reserve and offer for sale and sell such number of shares of the Preferred Stock to be purchased by us as you shall determine to dealers (the "Selected Dealers"), among whom any of the Underwriters may be included, who shall be either members of the National Association of Securities Dealers, Inc., or foreign dealers who, if registered under the Securities Exchange Act of 1934, agree that in making any sales to purchasers within the United States they will conform to the Rules of Fair Practice of such Association or, if not so registered, agree to make no sales within the United States, its territories or its possessions or to persons who are citizens thereof or residents therein. Such offering may be made under a Selected Dealers Agreement substantially in the form attached hereto as Exhibit B (the "Selected Dealers Agreement") or otherwise. The price to Selected Dealers shall be the public offering price less a concession of \$1.20 per share. A discount of not in excess of \$.50 per share may be reallocated to other members of such Association and to such foreign dealers. We also authorize you, for our account, to reserve and offer for sale and sell the Preferred Stock to be purchased by us, at the public offering price, to others than Selected Dealers. Such reservations and sales to others shall be as nearly as practicable in proportion to our underwriting obligation, unless you agree to a smaller proportion at our request. At or before the time of the public offering you will advise us of the number of shares of the Preferred Stock to be purchased by us which has not been reserved for sale as provided in this Section.

Sales to Selected Dealers shall be made as nearly as practicable in the ratio which the number of shares of the Preferred Stock reserved for our account bears to the aggregate number of shares of the Preferred Stock reserved for the account of all Underwriters, as calculated from day to day. On or after the date of closing as determined in the Purchase Agreement you may from time to time deliver any of the shares of the Preferred Stock then reserved for offering and sale to, but not purchased and paid for by, Selected Dealers or others as above provided, to any of the Underwriters for carrying purposes or for sale by such Underwriter, but to the extent that shares of Preferred Stock are so delivered for sale by such Underwriter the number of shares of Preferred Stock then reserved for the account of such Underwriter shall be correspondingly reduced. Preferred Stock delivered for carrying purposes only must be redelivered to you upon your demand.

We will repurchase any shares of Preferred Stock sold by us, except through you, which shall be contracted for or purchased by you in the open market or otherwise during the life of this Agreement, on demand, at a price equal to the cost of such purchase plus tax on redelivery and commission, if any. In lieu thereof you may, in your discretion, sell the same for our account at such prices and upon such terms and to such persons, including any of the other Underwriters, as you may determine, charging the amount of any loss and expense or crediting the amount of any profit, less any expense, resulting from such sale, to our account, or charge our account with an amount not in excess of the concession to Selected Dealers.

Each Underwriter agrees that if any such offering is made pursuant to a Selected Dealers Agreement it will be governed by the terms and provisions thereof.

SECTION 4. Payment and Delivery. Payment for the Preferred Stock to be purchased by each Underwriter is to be made by the delivery of its check to you at your office, 70 Pine Street, New York, N. Y. 10005, not later than 9:00 A.M. New York City Time, on the date of closing as determined in the Purchase Agreement or such other date as you may advise. Payment shall be made by certified or official bank check in New York Clearing House funds to your order, and each Underwriter authorizes

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you for its account to make payment of the purchase price of the Preferred Stock against delivery to you of the shares of Preferred Stock which it has agreed to purchase. You may, in your discretion, make such payment to the Company on our behalf with your own funds, in which event we will reimburse you upon request. Delivery of the Preferred Stock retained by us for direct sale will be made by you as soon as practicable.

Upon receiving payment for the Preferred Stock reserved for Selected Dealers and others as provided in Section 3 hereof, you are to remit an amount equal to the purchase price paid by us for such shares of Preferred Stock and credit or charge our account with the difference between the price at which such shares were sold and our purchase price.

SECTION 5. Compensation to the Representative. As compensation for your services in connection with the underwriting and the managing of the offering, each Underwriter agrees to pay you an amount equal to \$.40 per share for each of the shares of Preferred Stock which it agrees to purchase pursuant to the Purchase Agreement, and authorizes you to charge its account with such amount.

SECTION 6. Authority of the Representative to Borrow. You are hereby authorized to advance your own funds for our account, charging current interest rates, or to arrange loans for our account or the account of one or more of the Underwriters, severally and not jointly, to execute and deliver any notes or other instruments in connection therewith and to pledge all or any part of the Preferred Stock which such Underwriter or Underwriters shall have become obligated to purchase under any of the terms of this Agreement or of the Purchase Agreement as security therefor, as you may deem necessary or advisable to carry out the purchase, carrying, sale and distribution of the Preferred Stock. Any lender is hereby authorized to accept your instructions as to the disposition of the proceeds of any such loans. Each Underwriter will be reimbursed or credited with the proceeds of loans made for its account.

SECTION 7. Trading Among Underwriters and Selected Dealers. You may purchase Preferred Stock from, or sell Preferred Stock to, any of the Selected Dealers or any of the Underwriters at the public offering price thereof less a concession no greater than the concession allowed to Selected Dealers. The Underwriters and the Selected Dealers, may with your consent, purchase shares of Preferred Stock from and sell shares of Preferred Stock to each other at the public offering price less a concession no greater than the concession allowed to Selected Dealers.

SECTION 8. Stabilization. In order to facilitate the distribution of the Preferred Stock, you may, for the account of each Underwriter, during the life of this Agreement, make purchases and sales of shares of Preferred Stock and/or Common Stock of the Company, in the open market or otherwise, for long or short account, at such prices, in such amounts and in such manner as you may determine, and, in arranging for sales to Selected Dealers or others may over-allot, and either before or after the termination of this Agreement you may cover any short position incurred pursuant to this Section; provided that at the close of business on any day the net commitment of each Underwriter, either for long or short account, resulting from such purchases or sales (including over-allotments) shall not exceed 15% of the aggregate number of shares of Preferred Stock which such Underwriter has agreed to purchase pursuant to the Purchase Agreement, except that such percentage may be increased with the approval of a majority in interest of the Underwriters. Such purchases and sales (including over-allotments) shall be made for the accounts of the Underwriters as nearly as practicable in proportion to their respective underwriting obligations. Each Underwriter agrees to take up at cost on demand any shares of Preferred Stock or Common Stock so purchased for its account and to deliver on demand any shares of Preferred Stock or Common Stock so sold or over-allotted for its account, and to pay to you on demand the amount of any losses or expenses incurred for its account pursuant to this Section. In the event of default by one or more Underwriters in respect of their obligations under this Section, each non-defaulting Underwriter shall assume its proportionate share of the obligations of such defaulting Underwriter without relieving such defaulting Underwriter of its liability hereunder.

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It is understood that in connection with stabilization you may have made purchases of Common Stock prior to the execution of this Agreement and each Underwriter agrees that any Common Stock so purchased shall be treated as having been purchased for the several accounts of the Underwriters pursuant to the authorization given above.

Each Underwriter agrees that during the life of this Agreement or such shorter period as you may determine it will not bid for or purchase for any account in which it has a beneficial interest any Preferred Stock or Common Stock of the Company, or attempt to induce any person to purchase any Preferred Stock or Common Stock of the Company; provided, however, that the foregoing shall not prohibit (i) offers to sell or the solicitation of offers to buy shares of the Preferred Stock to be acquired by an Underwriter pursuant to the Purchase Agreement, (ii) brokerage transactions not involving solicitation of customers' orders and (iii) transactions with your written consent or otherwise permitted under this Agreement.

Each Underwriter agrees that at any time or times prior to the termination of this Agreement it will, upon your request, report to you the number of shares of Preferred Stock purchased by it and not reserved for offering to Selected Dealers and others, as herein provided, which remains unsold and will upon your request, at such time or times, deliver to you for its account or sell to you for the account of one or more of the Underwriters, such number of unsold shares as you may designate at the public offering price thereof less an amount to be determined by you not in excess of the concession allowed to Selected Dealers.

Each Underwriter authorizes you to file with the Commission any and all reports required by Rule 17a-2 of the Commission to be filed in connection with any purchases or sales made by you for its account pursuant to the authorization contained in this Section.

You will notify each Underwriter if you effect any transactions pursuant to this Section 8.

SECTION 9. Allocation of Expenses. The accounts of the Underwriters shall be charged with all transfer taxes on sales and other transfers for their respective accounts, and, in proportion to their respective underwriting obligations, with all expenses incurred by you or with your approval in connection with the Purchase Agreement and this Agreement and the purchase, carrying, sale and distribution of the Preferred Stock. Your determination of the amount of such expenses and the allocation thereof as among the Underwriters shall be final and conclusive.

Funds of the Underwriters at any time in your hands may be held in your general funds without accountability for interest. You may in your discretion at any time make partial distribution of credit balances of the Underwriters and may at any time call on the Underwriters to pay their respective debit balances.

SECTION 10. Blue Sky Qualifications. Upon application, you will inform any of the Underwriters as to the jurisdictions in which it is believed that the Preferred Stock is qualified for sale under, or is exempt from the requirements of, the respective securities laws of such jurisdictions, but you, individually or as Representative, assume no obligation or responsibility as to the right of any Underwriter to sell Preferred Stock in any jurisdiction.

You will send by registered mail to the Pennsylvania Securities Commission a copy of the Prospectus and a list of dealers to whom you expect initially to offer the Preferred Stock on behalf of the Underwriters and you will file with the Department of State of New York a Further State Notice with respect to the Preferred Stock if necessary.

SECTION 11. Membership in National Association of Securities Dealers, Inc.; Foreign Dealers. We understand that you are a member in good standing of the National Association of Securities Dealers, Inc. We hereby confirm that we are a member in good standing of the National Association of Securities

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Dealers, Inc. or, if we are not such a member, we are either (i) a foreign dealer registered under the Securities Exchange Act of 1934 who hereby agrees to conform to the Rules of Fair Practice of such Association in making sales to purchasers within the United States or (ii) a foreign dealer not so registered who hereby agrees to make no sales within the United States, its territories or its possessions or to persons who are citizens thereof or residents therein.

SECTION 12. Termination of Agreement. This Agreement shall terminate at the close of business on the 45th day after the effective date of the Registration Statement, unless earlier terminated. You may terminate this Agreement or any provision thereof at any time by written or telegraphic notice to us. As soon as practicable after termination of this Agreement the net credit or debit balance in the account of each Underwriter shall be paid to or collected from such Underwriter, provided that you may in your discretion reserve from distribution an aggregate of not exceeding \$15,000 to cover possible additional expenses chargeable to the respective Underwriters, but no statement by you of the amount of credit or debit balance or payment or reserve shall constitute any representation by you as to the existence or non-existence of any other charges, liabilities or expenses, for which the Underwriters shall continue liable. Notwithstanding any settlement on the termination of this Agreement, each Underwriter agrees to pay its proportion (determined on the basis provided in Section 9 hereof) of the amount of any liability or expense incurred by any Underwriter, based on the claim that the Underwriters constitute an association, unincorporated business or other separate entity.

SECTION 13. Default by Underwriters. Default by one or more Underwriters in respect of their several obligations pursuant hereto or to the Purchase Agreement shall not release any other Underwriter from its obligations or in any way affect the liability of any defaulting Underwriter to the other Underwriters for damages resulting from such default. If one or more Underwriters default under the Purchase Agreement, you are authorized, but shall not be obligated, to arrange for the purchase by other persons, including non-defaulting Underwriters, of the Preferred Stock not taken up by such defaulting Underwriters.

SECTION 14. Position of Representative. Except as in this Agreement otherwise specifically provided, you shall have full authority to take such action as you may deem necessary or advisable in respect of all matters pertaining to the Purchase Agreement, this Agreement and the purchase, carrying, sale and distribution of the Preferred Stock, but you shall be under no liability to us, except for your own want of good faith, for obligations assumed by you in this Agreement and for any liabilities arising under the Securities Act of 1933, as amended. No obligations not expressly assumed by you in this Agreement shall be implied hereby or inferred herefrom. Authority with respect to matters to be determined by you or by you and the Company pursuant to this Agreement or the Purchase Agreement shall survive the termination of this Agreement.

Nothing herein contained shall constitute the Underwriters an association, or partners, with you, or with each other, or, except as otherwise provided in this Agreement or in the Purchase Agreement, render any Underwriter liable for the obligations of any other Underwriter, and the rights, obligations and liabilities of each of the Underwriters are several in accordance with their respective obligations and not joint.

SECTION 15. Indemnification. We will indemnify and hold harmless each other Underwriter and each person, if any, who controls such Underwriter within the meaning of Section 15 of the Securities Act of 1933, as amended, to the extent that and upon the terms which each Underwriter agrees to indemnify and hold harmless the Company as set forth in the Purchase Agreement. Such indemnity agreement shall survive the termination of this Agreement.

SECTION 16. Notices. Any notice from you to the undersigned shall be deemed to have been duly given if mailed, telephoned (excepting a notice pursuant to Section 12 hereof) or telegraphed to us at our address appearing in the Prospectus.

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SECTION 17. *Execution of this Agreement.* This Agreement is being executed by us and delivered to you in duplicate. Upon your receipt of identical agreements from each of the other Underwriters, please confirm this Agreement and return one copy to us.

Very truly yours.

.....
.....
(Official Signature)

Confirmed as of the date first above written:
MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

By
(Authorized Signature)

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EXHIBIT A

STIRLING HOMEX CORPORATION
(a Delaware corporation)500,000 Shares of \$2.40 Cumulative Convertible Preferred Stock
(Par Value \$1 Per Share)PURCHASE AGREEMENT

July 29, 1971

MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED
as Representative of the several Underwriters
70 Pine Street
New York, N. Y. 10005

Dear Sirs:

Stirling Homex Corporation, a Delaware corporation (the "Company"), confirms its agreement with you and each of the other Underwriters named in Schedule A annexed hereto (the "Underwriters", which term shall also include any underwriter substituted as hereinafter in Section 9 provided), for which you are acting as Representative with respect to the sale by the Company, and the purchase by each of the Underwriters, acting severally and not jointly, of the respective numbers of shares of \$2.40 Cumulative Convertible Preferred Stock, par value \$1 per share, of the Company set forth in Schedule A. The 500,000 shares of Preferred Stock to be purchased by the Underwriters are hereinafter sometimes called the "Preferred Stock".

SECTION 1. *Representations and Warranties of the Company.* The Company represents and warrants to, and agrees with, each Underwriter that:

(a) The Company has filed with the Securities and Exchange Commission (the "Commission") a registration statement on Form S-1 and two amendments thereto and related preliminary prospectuses for the registration under the Securities Act of 1933, as amended (the "Act"), of the Preferred Stock. The Company has prepared and will promptly file a further amendment to the registration statement and an amended prospectus, and will not, at any time before the registration statement becomes effective, file any other amendment to the registration statement or any other amended prospectus to which you shall reasonably object in writing or which shall be disapproved by Messrs. Brown, Wood, Fuller, Caldwell & Ivey, counsel for the Underwriters. The Company will not, at any time after the registration statement becomes effective, file any amendment to the registration statement as amended or any amendment or supplement to the amended prospectus on file with the Commission at the time the registration statement becomes effective to which you shall reasonably object in writing or which shall be disapproved by counsel for the Underwriters. The registration statement as amended and the amended prospectus on file with the Commission at the time the registration statement becomes effective are hereinafter called the "Registration Statement" and the "Prospectus", respectively, except that if the prospectus filed with your approval by the Company pursuant to Rule 424(b) of the rules and regulations of the Commission under the Act shall differ from the prospectus on file at the time the Registration Statement shall become effective, the term "Prospectus" shall refer to the Prospectus filed pursuant to Rule 424(b).

(b) At the time the Registration Statement becomes effective, the Registration Statement and the Prospectus, and at the Closing Time referred to in Section 2, the Prospectus, will comply with the provisions of the Act and the rules and regulations of the Commission thereunder (the "Regulations"); at the time the Registration Statement becomes effective, the Registration Statement will

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not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and at the time the Registration Statement becomes effective and at Closing Time, the Prospectus will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that none of the representations and warranties in this subsection shall apply to statements in or omissions from the Registration Statement or Prospectus made in reliance upon and in conformity with information furnished to the Company in writing by any Underwriter through you expressly for use in the Registration Statement or Prospectus.

(c) The accountants who certified certain of the financial statements and supporting schedules filed as a part of the Registration Statement and certain of those included in the Prospectus are independent certified public accountants as required by the Act and the Regulations.

(d) The financial statements filed as a part of the Registration Statement and those included in the Prospectus present fairly the financial position of the Company and its subsidiaries as at the dates indicated and the results of their operations and the source and application of funds for the periods specified; said financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis during the periods involved; and the supporting schedules filed as part of the Registration Statement and those included in the Prospectus present fairly the information required to be stated therein.

(e) Since the respective dates as of which information is given in the Registration Statement and Prospectus, except as may otherwise be stated in the Registration Statement and Prospectus: (i) there has not been any material adverse change in the condition of the Company and its subsidiaries, financial or otherwise, or in the earnings, affairs or business prospects of the Company and its subsidiaries, whether or not arising in the ordinary course of business, (ii) there has not been any material transaction entered into by the Company or any of its subsidiaries other than in the ordinary course of business, (iii) there has been no dividend or distribution of any kind declared, paid or made by the Company on its capital stock, and (iv) the Company and its subsidiaries have not incurred any liabilities or obligations (direct or contingent), except in the ordinary course of business, nor have they had any increase in their funded indebtedness.

(f) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware with corporate power and authority to own its properties and conduct its business as described in the Prospectus, and is duly qualified as a foreign corporation to transact business and is in good standing in each of the jurisdictions in which its business as presently conducted requires such qualification.

(g) The authorized capital stock of the Company consists of 15,000,000 shares of Common Stock, par value \$.01 per share, and 500,000 shares of Preferred Stock, par value \$1 per share, of which 8,909,200 shares of Common Stock, including 60,000 shares held in the Company's treasury, have been duly and validly issued and are full paid and non-assessable and 8,849,200 of such shares are outstanding; when issued and delivered by the Company pursuant to this Agreement for the consideration herein set forth, the 500,000 shares of Preferred Stock to be purchased by the Underwriters from the Company hereunder will be duly and validly issued and full paid and non-assessable; and the Common Stock and Preferred Stock conform to all statements relating thereto contained in the Registration Statement and Prospectus. The Company has reserved for issuance 1,379,310 shares of Common Stock upon conversion of the Preferred Stock.

(h) Neither the Company nor any of its subsidiaries is in violation of its charter or in default in the performance or observance of any material obligation, agreement, covenant, or condition contained in any bond, debenture, note or other evidence of indebtedness or in any contract, indenture, mortgage, loan agreement, lease or other instrument to which the Company or any such subsidiary is a party; and the execution and delivery of this Agreement, the incurrence of the obligations

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herein set forth and the consummation of the transactions herein contemplated will not conflict with or constitute a breach of, or default under, the charter or by-laws of the Company or any bond, debenture, note or other evidence of indebtedness or any contract, indenture, mortgage, loan agreement, lease or other instrument to which the Company or any subsidiary is a party or by which it is bound, or, to the knowledge of the Company, any law, administrative regulation or court decree.

(i) Each subsidiary of the Company listed in Item 27 of the Registration Statement has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation, and each subsidiary is duly qualified as a foreign corporation to transact business and is in good standing in each of the jurisdictions in which its business requires such qualification; all of the issued and outstanding shares of each such subsidiary have been duly and validly issued and are fully paid and non-assessable; and all of such shares shown as being owned by the Company are owned by the Company free and clear of any mortgage, pledge, lien, encumbrance, claim or equity.

(j) The Company does not need patent rights or licenses or other rights to use patent rights, inventions, trademarks, trade names and copyrights to conduct the business now operated by it, and, except as stated in the Prospectus, the Company has not received any notice of infringement of or conflict with asserted rights of others with respect to any patent, patent rights, inventions, trademarks, trade names or copyrights which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would materially adversely affect the conduct of the business, operations, financial condition or income of the Company.

(k) The Company has obtained from the officers listed in the Prospectus and directors of the Company holding 1,000 or more shares of its Common Stock and R. W. Pressprich & Co. Incorporated ("Pressprich") written agreements whereby such persons have respectively agreed that during a period of 90 days from the date of the Prospectus, they will not, without the written prior consent of the Representative, directly or indirectly, sell, grant any option for the sale of, or otherwise dispose of any Common Stock of the Company owned by them, except that Pressprich may exercise its normal market-making activities during the period referred to above.

(l) The Company knows of no outstanding claims for services either in the nature of a finder's fee, brokerage fee or otherwise with respect to this financing for which it may be responsible.

Any certificate signed by any officer of the Company and delivered to you or to counsel for the Underwriters shall be deemed a representation and warranty by the Company to each Underwriter as to the matters covered thereby.

SECTION 2. Purchase by, and Sale and Delivery to, Underwriters—Closing Time. On the basis of the representations and warranties herein contained and subject to the terms and conditions herein set forth, the Company agrees to sell to each Underwriter and each Underwriter, severally and not jointly, agrees to purchase from the Company at \$38 per share, the number of shares of Preferred Stock set forth in Schedule A opposite the name of such Underwriter.

Payment of the purchase price for, and delivery of certificates for, the Preferred Stock to be purchased by the Underwriters shall be made at the office of Chemical Bank of New York, New York, or at such other place as shall be agreed upon by you and the Company, at 10:00 A.M., New York City Time, on the fifth full business day (unless postponed in accordance with the provisions of Section 9) following the day on which the Registration Statement becomes effective, or such other time not later than ten business days after such effective date as shall be agreed upon by you and the Company (such time and date of such payment and delivery being herein called the "Closing Time"). Payment shall be made to the Company by certified or official bank check or checks in New York Clearing House funds payable to its order, against delivery to you for the respective accounts of the Underwriters of certificates for the Preferred Stock to be purchased by the Underwriters. Certificates for the Preferred Stock shall be

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in such denominations and registered in such names as you may request in writing at least two business days before the Closing Time. It is understood that each Underwriter has authorized you, for the account of such Underwriter, to accept delivery of, receipt for, and make payment of the purchase price for, the Preferred Stock which it has agreed to purchase. You, individually and not as Representative, may but shall not be obligated to) make payment of the purchase price for the Preferred Stock to be purchased by any Underwriter whose check shall not have been received by the Closing Time, for the account of such Underwriter, but any such payment shall not relieve such Underwriter from any obligations hereunder. The certificates for the Preferred Stock to be purchased by the Underwriters will be made available by the Company for examination and packaging by you on or before the first business day prior to the Closing Time.

SECTION 3. Covenants of the Company. The Company covenants with each Underwriter that:

(a) The Company will notify you immediately and confirm the notice in writing (i) when the Registration Statement and any amendment thereto shall have become effective, (ii) of the receipt of any comments from the Commission, (iii) of any request by the Commission for any amendment to the Registration Statement or any amendment or supplement to the Prospectus or for additional information, and (iv) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or of the initiation of any proceedings for that purpose. The Company will make every reasonable effort to prevent the issuance by the Commission of any stop order and, if any such stop order shall at any time be issued, to obtain the lifting thereof at the earliest possible moment.

(b) The Company will deliver to you, as soon as available, three signed copies of the registration statement as originally filed and of each amendment thereto and three sets of exhibits thereto, and will also deliver to you a conformed copy of the registration statement as originally filed and of each amendment thereto (without exhibits) for each of the Underwriters.

(c) The Company will deliver to each Underwriter from time to time, before the registration statement becomes effective, such number of copies of the preliminary prospectus as originally filed and any amended preliminary prospectus, and as soon as the Registration Statement becomes effective and thereafter from time to time during the period when the Prospectus is required to be delivered under the Act, such number of copies of the Prospectus (as amended or supplemented) as such Underwriter may reasonably request for the purposes contemplated by the Act or the Regulations.

(d) During the period when the Prospectus is required to be delivered under the Act, the Company will comply, so far as it is able and, during the period of nine months after the date of the Prospectus, at its own expense, with all requirements imposed upon it by the Act, as now and hereafter amended, and by the Regulations, as from time to time in force, so far as necessary to permit the continuance of sales of or dealing in any Preferred Stock of the Company during such period in accordance with the provisions hereof and of the Prospectus.

(e) During the period when the Prospectus is required to be delivered under the Act, if any event relating to or affecting the Company or any of its subsidiaries shall occur as a result of which it is necessary, in the opinion of counsel for the Underwriters, to amend or supplement the Prospectus in order to make the Prospectus not misleading in the light of the circumstances existing at the time it is delivered to a purchaser, the Company will forthwith prepare and furnish to the Underwriters a reasonable number of copies of an amendment or amendments of, or a supplement or supplements to, the Prospectus (in form and substance satisfactory to counsel for the Underwriters) which will amend or supplement the Prospectus so that as amended or supplemented it will not contain an untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at the time the Prospectus is delivered to a purchaser, not misleading. For the purposes of this subsection the Company will furnish such information with respect to itself and its subsidiaries as you may from time to time request.

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(f) The Company will endeavor in good faith, in cooperation with the Underwriters, to qualify the Preferred Stock and, if necessary, the Common Stock into which it is convertible for offering and sale under the applicable securities laws of such jurisdictions as you may designate; provided, however, that the Company shall not be obligated to file any general consent to service or to qualify as a foreign corporation or as a dealer in securities in any jurisdiction in which it is not so qualified. In each jurisdiction in which any of the shares of the Preferred Stock or Common Stock shall have been qualified as above provided, the Company will make and file such statements and reports as are or may be reasonably required by the laws of such jurisdiction.

(g) The Company will make generally available to its security holders as soon as practicable, but not later than 90 days after the close of the period covered thereby, an earnings statement (in form complying with the provisions of Section 11(a) of the Act, which need not be certified by independent public accountants unless required by the Act or the Regulations) covering the twelve month period commencing on the first day of the month next following the effective date of the Registration Statement or on the first day of the month following the end of the current fiscal year.

(h) The Company will for a period of five years from the effective date of the Registration Statement furnish directly to each of the Underwriters, as soon as the same shall be sent to its shareholders, copies of any annual or interim reports of the Company to its shareholders, and it will, for the same period, also furnish you with the following:

(i) as soon as practicable after the end of each fiscal year, one copy of the annual independent accountants' report, including therein the accountants' certificate, the consolidated balance sheet of the Company and its subsidiaries, and the related statements of income, retained earnings, additional paid-in capital and source and application of funds, together with such accountants' comments and notations with respect thereto in such detail as the Company may customarily receive from such accountants;

(ii) as soon as practicable after the end of each of the first three fiscal quarters, one copy of a consolidated balance sheet of the Company and its subsidiaries as at the end of such period, setting forth in reasonable detail their financial position, together with related statements of income and retained earnings, none of which statements need be audited but shall be prepared in conformity with generally accepted accounting principles and certified as correct by the Treasurer or principal accounting officer of the Company;

(iii) copies of any report or application which the Company shall file with the Commission or any securities exchange; and

(iv) as soon as the same shall be sent to the shareholders, each communication which shall be sent to the shareholders as a class.

SECTION 4. Payment of Expenses. The Company will pay all expenses incident to the performance of its obligations under this Agreement, including (i) the printing and filing of the Registration Statement and Prospectus and the printing of this Agreement and the Underwriters' Questionnaire, (ii) the issuance and delivery of the Preferred Stock to the Underwriters, (iii) the fees and disbursements of the Company's counsel and accountants related to the preparation of the Registration Statement and Prospectus, (iv) the qualification of the Preferred Stock and if necessary the Common Stock into which it is convertible under securities laws in accordance with the provisions of Section 3(f), including filing fees and the fee (not exceeding \$6,000) and disbursements of counsel for the Underwriters in connection therewith and in connection with the preparation of the Blue Sky Survey, (v) the filing fee of the National Association of Securities Dealers, Inc., (vi) the printing and delivery to the Underwriters in quantities as hereinabove stated of copies of the registration statement and all amendments thereto, of the preliminary prospectus and any amended preliminary prospectus, of the Registration Statement and any amendments thereto, and of the Prospectus and any amendments or supplements thereto, and (vii) the printing and delivery to the Underwriters of copies of the Blue Sky Survey to be prepared by counsel for the Underwriters.

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If this Agreement is cancelled or terminated by you in accordance with the provisions of Section 5 or Section 8(b)(1) or is prevented by the Company from becoming effective in accordance with the provisions of Section 8(a), the Company shall reimburse the Underwriters for all of their reasonable out-of-pocket expenses, including the fee and disbursements of counsel for the Underwriters.

SECTION 5. Conditions of Underwriters' Obligations. The several obligations of the Underwriters hereunder are subject to the accuracy of and compliance with the representations and warranties of the Company, to the performance by the Company of its obligations hereunder, and to the following further conditions:

(a) The Registration Statement shall have become effective not later than 5:30 P.M., New York City Time, on July 29, 1971, or with your consent, at a later time and date not later, however, than 5:30 P.M., New York City Time, on July 30, 1971, or at such later time and date as may be approved by a majority in interest of the Underwriters; and at Closing Time no stop order suspending the effectiveness thereof shall have been issued under the Act or proceedings therefor initiated or threatened by the Commission.

(b) At Closing Time you shall have received:

(1) The favorable opinion of Messrs. Shea Gould Climenko & Kramer, counsel for the Company, in form and substance satisfactory to counsel for the Underwriters, to the effect that:

(i) the Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Delaware;

(ii) the Company has corporate power and authority to own its properties and conduct its business as described in the Prospectus and is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which it owns or leases real property, erects modules or prepares sites for modules;

(iii) each subsidiary of the Company listed in Item 27 of the Registration Statement has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction of its incorporation; based on certificates of good standing, U. S. Shelter Corporation is duly qualified as a foreign corporation to transact business and is in good standing in each jurisdiction in which the conduct of its business requires such qualification and each other such subsidiary is duly qualified as a foreign corporation to transact business and is in good standing in each of the jurisdictions in which it owns or leases real property; all of the issued and outstanding capital stock of each such subsidiary is duly and validly issued and is full paid and non-assessable; and all of such capital stock of each such subsidiary is owned by the Company;

(iv) the authorized capital stock of the Company consists of 15,000,000 shares of Common Stock, par value \$.01 per share, and 500,000 shares of Preferred Stock, par value \$1 per share, of which 8,909,200 shares of Common Stock, including 60,000 shares held in the Company's treasury, have been duly and validly issued and are full paid and non-assessable and 8,849,200 of such shares are outstanding; and 888,200 shares of Common Stock of the Company have been reserved for issuance under its Stock Option Plan with options for 602,100 of such shares being outstanding;

(v) the 500,000 shares of Preferred Stock to be purchased by the Underwriters from the Company hereunder have been duly and validly authorized for issuance, and, when issued and delivered by the Company pursuant to this Agreement against payment of the consideration herein set forth, will be duly and validly issued and full paid and non-assessable; and the stockholders of the Company do not have preemptive rights to subscribe for or purchase any of the Preferred Stock or any shares of the Common Stock into which the Preferred Stock is convertible;

(vi) the shares of Common Stock initially issuable upon conversion of the Preferred Stock have been duly authorized and reserved for issuance upon such conversion, and

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when issued upon conversion of the Preferred Stock, in accordance with the terms thereof, will be duly and validly issued and full paid and non-assessable;

(vii) the execution and delivery of this Agreement have been duly authorized by all necessary action on the part of the Company and this Agreement constitutes the valid and binding agreement of the Company, except as the enforceability of the indemnity provisions may be limited under the Act;

(viii) the Registration Statement is effective under the Act, and to the best of their knowledge and information, no proceedings for a stop order have been instituted or are pending or threatened under Section 8(d) of the Act;

(ix) at the time the Registration Statement became effective, the Registration Statement and the Prospectus (other than the financial statements and supporting schedules included therein, as to which no opinion need be rendered) complied as to form in all material respects with the requirements of the Act and the Regulations and nothing has come to their attention that would lead them to believe that the Registration Statement at the time it became effective contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus at the time the Registration Statement became effective or at Closing Time contained an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading;

(x) the terms and provisions of the Preferred Stock and the Common Stock conform to the respective descriptions thereof contained in the Registration Statement and Prospectus; and the respective forms of certificates used to evidence the Preferred Stock and the Common Stock issuable upon conversion of the Preferred Stock comply with the requirements of the relevant provisions of the General Corporation Law of the State of Delaware;

(xi) the information in the Prospectus under the captions "Business—Financing" and "Description of Capital Stock", to the extent that it constitutes matters of law or legal conclusions, has been reviewed by them and is correct;

(xii) the statements made in the Registration Statement and Prospectus under the caption "Stock Option Plan", in so far as they purport to summarize and outline the provisions of the Company's stock option plan, fairly present the information regarding the same presented therein;

(xiii) to the best of their knowledge and information, there are no contracts, indentures, mortgages, loan agreements, leases or other documents of a character required to be described or referred to in the Registration Statement or Prospectus or to be filed as exhibits to the Registration Statement other than those described or referred to therein or filed as exhibits thereto, and the descriptions thereof are correct in all material respects; and, to the best of their knowledge and information, no default exists in the due performance or observance of any material obligation, agreement or condition contained in any contract, indenture, mortgage, loan agreement, lease or other document so described, referred to or filed and the consummation of the transactions contemplated in this Agreement will not constitute a default or violation of, or require the consent of any other party under, any contract, indenture, mortgage, loan agreement, lease or other document to which the Company is a party; and

(xiv) to the best of their knowledge and information, there are no material legal or governmental proceedings pending or threatened of a character which are required to be disclosed in the Registration Statement and Prospectus, other than those disclosed therein.

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(2) The favorable opinion of Messrs. Brown, Wood, Fuller, Caldwell & Ivey, counsel for the Underwriters, to the same effect as the matters set forth in (i) and (v) to (x), inclusive, of subsection (b)(1) of this Section 5.

(c) At Closing Time you shall have received a certificate of the President or a Vice President of the Company to the effect that, as of Closing Time and since the respective dates as of which information is given in the Registration Statement and the Prospectus, except as may otherwise be stated in the Registration Statement and Prospectus: (i) there has not been any material adverse change in the condition of the Company and its subsidiaries, financial or otherwise, or in the earnings, affairs or business prospects of the Company and its subsidiaries, whether or not arising in the ordinary course of business; (ii) there have not been any material transactions entered into by the Company or any of its subsidiaries other than transactions in the ordinary course of business or transactions referred to in the Registration Statement and Prospectus; (iii) neither the Company nor any of its subsidiaries has sustained a loss of, or damage to, its properties (whether or not insured) which would materially adversely affect the business, operations, financial condition or income of the Company and its subsidiaries; (iv) there has been no dividend or distribution of any kind declared, paid or made by the Company on its capital stock; (v) no action, suit or proceeding, at law or in equity, is pending or to the knowledge of the Company threatened against or affecting the Company or any of its subsidiaries, and no proceedings are pending or to the knowledge of the Company threatened against the Company or any of its subsidiaries before or by any governmental official, commission, board, committee or other authority, wherein an unfavorable decision, ruling or finding would materially adversely affect the business, operations, financial condition or income of the Company and its subsidiaries; (vi) none of the assets of the Company or any of its subsidiaries is subject to any mortgage, pledge, lien, encumbrance, claim or equity, except minor encumbrances and defects in title which do not materially impair the value of such assets or the use of such assets in the conduct of the business of the Company and its subsidiary; (vii) neither the Company nor any of its subsidiaries is in default in the performance or observance of any obligation, agreement, covenant or condition contained in any bond, debenture, note or other evidence of indebtedness or in any contract, indenture, mortgage, loan agreement or lease to which it is a party, the liabilities for which would be material in relation to the Company and its subsidiaries; (viii) no stop order suspending the effectiveness of the Registration Statement has been issued under the Act and no proceedings therefor have been instituted or threatened by the Commission; and (ix) to the knowledge of the Company, no labor disturbance by the employees of the Company or any of its subsidiaries exists or is imminent which might materially adversely affect the business, operations, financial condition or income of the Company and its subsidiaries.

(d) At Closing Time you shall have received from Peat, Marwick, Mitchell & Co. a letter, in form and substance satisfactory to you, advising that (i) they are independent public accountants as required by the Act and the applicable Regulations, (ii) it is their opinion that the financial statements and supporting schedules filed as part of the Registration Statement and those included in the Prospectus, and covered by their opinions therein, comply as to form in all material respects with the pertinent accounting requirements of the Act and the Regulations relating to financial statements in registration statements on Form S-1, and, (iii) based on reading unaudited financial data and unaudited financial statements of the Company and its subsidiaries for the periods indicated below, inquiries of and discussions with certain officers and employees of the Company and its subsidiaries who have responsibility for financial and accounting matters and customers of the Company and its subsidiaries and such other procedures, if any, followed by such accountants as shall be specified in such letter (which procedures do not constitute an examination made in accordance with generally accepted auditing standards), they have no reason to believe that (A) during the period from the date of the table included in the Prospectus showing the capitalization of the Company to a date specified in such letter which is not more than five days prior to the Closing Time, there was any change in the capital stock or long-term debt of the Company except as contemplated in the Registration Statement and Prospectus; or (B) with respect to the period from April 30, 1971 to a specified date not more than five business days prior to Closing Time, there has been, except as set forth in or

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contemplated by the Registration Statement, any material adverse change in the financial position or results of operations of the Company and its subsidiaries, or any change in the capitalization of the Company's subsidiaries; or (C) the unaudited consolidated financial statements set forth in the Registration Statement and the Prospectus are not fairly presented on a basis consistent with generally accepted accounting principles; or (D) the amounts of cash receipts and modules manufactured for the nine months ended April 30, 1971 set forth under "Sales—Cash Receipts and Working Capital" do not present fairly the information shown therein.

(e) At Closing Time counsel for the Underwriters shall have been furnished with such documents and opinions as they may require for the purpose of enabling them to pass upon the issuance and sale of the Preferred Stock as herein contemplated and related proceedings, or in order to evidence the accuracy or completeness of any of the representations or warranties, or the fulfillment of any of the conditions, herein contained, or to qualify the Preferred Stock under the securities laws of the various jurisdictions; and all proceedings taken by or on behalf of the Company in connection with the issuance and sale of the Preferred Stock as herein contemplated shall be satisfactory in form and substance to you and counsel for the Underwriters.

If any of the conditions specified in this Section shall not have been fulfilled when and as required by this Agreement to be fulfilled, this Agreement and all obligations of the Underwriters hereunder may be cancelled by you by notifying the Company of such cancellation in writing or by telegram at any time at or prior to Closing Time, and any such cancellation shall be without liability of any party to any other party except as otherwise provided in Section 4.

SECTION 6. *Indemnification.*

(a) The Company agrees to indemnify and hold harmless each Underwriter and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Act, as follows:

(i) against any and all loss, liability, claim, damage and expense whatsoever arising out of any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement (or any amendment thereto), or the omission or alleged omission therefrom of a material fact required to be stated therein or necessary to make the statements therein not misleading or arising out of any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus or the Prospectus (or any amendment or supplement thereto) or the omission or alleged omission therefrom of a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, unless such statement or omission or such alleged statement or omission was made in reliance upon and in conformity with written information furnished to the Company by any Underwriter through you expressly for use in the Registration Statement (or any amendment thereto) or such preliminary prospectus or the Prospectus (or any amendment or supplement thereto);

(ii) against any and all loss, liability, claim, damage and expense whatsoever to the extent of the aggregate amount paid in settlement of any litigation, commenced or threatened, or of any claim whatsoever based upon any such untrue statement or omission or any such alleged untrue statement or omission, if such settlement is effected with the written consent of the Company; and

(iii) against any and all expense whatsoever reasonably incurred in investigating, preparing or defending against any litigation, commenced or threatened, or any claim whatsoever based upon any such untrue statement or omission, or any such alleged untrue statement or omission, to the extent that any such expense is not paid under (i) or (ii) above.

This indemnity agreement is subject to the condition that, in so far as it relates to any untrue statement, alleged untrue statement, omission or alleged omission made in a preliminary prospectus but eliminated or remedied in the Prospectus, such indemnity agreement shall not inure to the benefit of any Underwriter from whom the person asserting any loss, liability, claim or damage purchased the Preferred Stock which is the subject thereof (or to the benefit of any person who controls such Underwriter) if such Underwriter failed to send or give a copy of the Prospectus to such person prior to or together with written confirmation of the sale of such Preferred Stock to such person. In no case shall

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the Company be liable under this indemnity agreement with respect to any claim made against any Underwriter or any such controlling person unless the Company shall be notified in writing of the nature of the claim within a reasonable time after the assertion thereof, but failure so to notify the Company shall not relieve it from any liability which it may have otherwise than on account of this indemnity agreement. In the case of any such notice to the Company, it shall be entitled to participate at its own expense in the defense, or if it so elects within a reasonable time after receipt of such notice, to assume the defense of any suit brought to enforce any such claim, but if it so elects to assume the defense, such defense shall be conducted by counsel chosen by it and approved by the Underwriter or Underwriters or controlling person or persons, defendant or defendants in any suit so brought, which approval shall not be unreasonably withheld. In the event that the Company elects to assume the defense of any such suit and retain such counsel, the Underwriter or Underwriters or controlling person or persons, defendant or defendants in the suit, shall bear the fees and expenses of any additional counsel thereafter retained by them. The Company agrees to notify you within a reasonable time of the assertion of any claim against it, any of its officers or directors or any person who controls the Company within the meaning of Section 15 of the Act, in connection with the sale of the Preferred Stock.

(b) Each Underwriter severally agrees that it will indemnify and hold harmless the Company, its directors, each of its officers who signed the Registration Statement, and each person, if any, who controls the Company within the meaning of Section 15 of the Act against any and all loss, liability, claim, damage and expense described in the indemnity contained in subsection (a) of this Section, but only with respect to statements or omissions made in the Registration Statement (or any amendment thereto) or any preliminary prospectus or the Prospectus (or any amendment or supplement thereto) in reliance upon and in conformity with written information furnished to the Company by such Underwriter through you expressly for use in the Registration Statement (or any amendment thereto) or such preliminary prospectus or the Prospectus (or any amendment or supplement thereto). In case any action shall be brought against the Company or any person so indemnified based on the Registration Statement (or any amendment thereto) or such preliminary prospectus or the Prospectus (or any amendment or supplement thereto) and in respect of which indemnity may be sought against any Underwriter, the Underwriters shall have the rights and duties given to the Company, and the Company shall have the rights and duties given to the Underwriters, by the provisions of subsection (a) of this Section.

SECTION 7. Representations, Warranties and Agreements to Survive Delivery. All representations, warranties and agreements contained in this Agreement, or contained in certificates of officers of the Company submitted pursuant hereto, shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of any Underwriter or controlling person, or by or on behalf of the Company and shall survive delivery of the Preferred Stock to the Underwriters.

SECTION 8. Effective Date of This Agreement and Termination Thereof. (a) This Agreement shall become effective (i) at 11:30 A.M., New York City Time, on the first full business day following the day on which the Registration Statement becomes effective or (ii) at the time of the initial public offering by the Underwriters, after the Registration Statement becomes effective, of any of the Preferred Stock, whichever shall first occur. The time of the initial public offering shall mean the time of the release by you, for publication, of the first newspaper advertisement, which is subsequently published, relating to the Preferred Stock, or the time at which the Preferred Stock is first generally offered by the Underwriters to dealers by letter or telegram, whichever shall first occur. You or the Company may prevent this Agreement from becoming effective without liability of any party to any other party, except as otherwise provided in Section 4, by giving the notice indicated below in this Section prior to the time when this Agreement would otherwise become effective as herein provided.

(b) You shall have the right to terminate this Agreement by giving the notice indicated below in this Section at any time at or prior to Closing Time (i) if there shall have been, since the respective dates at which information is given in the Registration Statement and Prospectus, any material adverse change in the condition of the Company and its subsidiaries on a consolidated basis, financial or

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otherwise, or in the earnings, affairs or business prospects of the Company and its subsidiaries on a consolidated basis, whether or not arising in the ordinary course of business, or (ii) if there shall have occurred any new outbreak of hostilities or other national or international calamity or crisis the effect of which on the financial markets of the United States shall be such as, in your judgment, makes it impracticable to enforce contracts for the sale of the Preferred Stock, or (iii) if trading on the New York Stock Exchange shall have been suspended, or minimum or maximum prices for trading shall have been fixed, or maximum ranges for prices for securities shall have been required on the New York Stock Exchange, by that Exchange or by order of the Commission or any other governmental authority having jurisdiction, or (iv) if a banking moratorium shall have been declared by either Federal or New York authorities. If you terminate this Agreement as provided in this Section, such termination shall be without liability of any party to any other party except as otherwise provided in Section 4.

If you elect to prevent this Agreement from becoming effective or to terminate this Agreement as provided in this Section, the Company and each other Underwriter shall be notified promptly by you, by telephone or telegram, confirmed by letter. If the Company elects to prevent this Agreement from becoming effective as provided in this Section, you shall be notified promptly by the Company, by telephone or telegram, confirmed by letter.

SECTION 9. Substitution of Underwriters or Increase in Underwriters' Commitments. If one or more of the Underwriters shall fail at Closing Time to purchase the Preferred Stock which it or they are obligated to purchase hereunder (the "Unpurchased Shares"), then:

(a) If the number of Unpurchased Shares does not exceed 50,000, the non-defaulting Underwriters shall be obligated to purchase the full amount thereof in proportion to their respective commitments hereunder.

(b) If the number of Unpurchased Shares exceeds 50,000, you shall have the right, within 24 hours thereafter, to make arrangements for one or more of the non-defaulting Underwriters, or any other underwriters, to purchase all, but not less than all, of the Unpurchased Shares in such amounts as may be agreed upon and upon the terms herein set forth; if, however, during such 24 hours you shall not have completed such arrangements for the purchase of all the Unpurchased Shares, then this Agreement shall terminate without liability on the part of any non-defaulting Underwriter or the Company.

Nothing in this Section and no action taken pursuant to this Section shall relieve any defaulting Underwriter from liability in respect of any default of such Underwriter under this Agreement.

In the event of a default by any Underwriter or Underwriters as set forth in this Section, either you or the Company shall have the right to postpone Closing Time for a period of not exceeding 7 days in order that any required changes in the Registration Statement or Prospectus or in any other documents or arrangements may be effected.

SECTION 10. Notices and Authority to Act. All communications hereunder shall be in writing and, if sent to the Underwriters, shall be mailed, delivered or telegraphed and confirmed to you at 70 Pine Street, New York, N. Y. 10005, attention of Mr. Felix Davis, or, if sent to the Company, shall be mailed, delivered or telegraphed and confirmed to Harold M. Yanowitch, Esquire, Executive Vice President and General Counsel, 1150 East River Road, Avon, N.Y. 14414.

SECTION 11. Parties. This Agreement shall inure to the benefit of and be binding upon the Underwriters and the Company and their respective successors. Nothing expressed or mentioned in this Agreement is intended or shall be construed to give any person, firm or corporation, other than the parties hereto and their respective successors, heirs and legal representatives and the controlling persons and the officers and directors referred to in Section 6, any legal or equitable right, remedy or claim under or in respect of this Agreement or any provision herein contained; this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of the parties hereto and their respective successors, heirs and legal representatives and said controlling persons and said

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officers and directors, and for the benefit of no other person, firm or corporation. No purchaser of Preferred Stock from any Underwriter shall be deemed to be a successor by reason merely of such purchase.

If the foregoing is in accordance with your understanding of our agreement, kindly sign and return to us a counterpart hereto, whereupon this instrument along with all counterparts will become a binding agreement between the Company and the Underwriters in accordance with its terms.

Very truly yours,

STELLING HOMEX CORPORATION

By
(Executive Vice President)

Confirmed and Accepted
As of the date first above written.

MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

By
(Authorized Signature)

For itself and as the Representative of the
other Underwriters named in Schedule A
hereto.

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SCHEDULE A

<u>Names and Addresses of Underwriters</u>	<u>Number of Shares of Preferred Stock to be Purchased</u>
Merrill Lynch, Pierce, Fenner & Smith Incorporated 70 Pine Street, New York, N. Y. 10005	150,500
duPont Glore Forgan Incorporated One Wall Street, New York, N. Y. 10005	12,000
Eastman Dillon, Union Securities & Co. Incorporated One Chase Manhattan Plaza, New York, N. Y. 10005	12,000
Goldman, Sachs & Co. 55 Broad Street, New York, N. Y. 10004	12,000
Hornblower & Weeks-Hemphill, Noyes 8 Hanover Street, New York, N. Y. 10004	12,000
Loeb, Rhoades & Co. 42 Wall Street, New York, N. Y. 10005	12,000
Smith, Barney & Co. Incorporated 1345 Avenue of the Americas, New York, N. Y. 10019	12,000
Stone & Webster Securities Corporation 90 Broad Street, New York, N. Y. 10004	12,000
Bache & Co. Incorporated 100 Gold Street, New York, N. Y. 10038	12,000
Shearson, Hammill & Co. Incorporated 14 Wall Street, New York, N. Y. 10005	12,000
American UBS Corporation 40 Wall Street, 34th Floor, New York, N. Y. 10005	7,000
Basle Securities Corporation 120 Broadway, New York, N. Y. 10005	7,000
Bear, Stearns & Co. One Wall Street, New York, N. Y. 10005	7,000
Burnham and Company 60 Broad Street, New York, N. Y. 10004	7,000
CBWL-Hayden, Stone Inc. 767 Fifth Avenue, New York, N. Y. 10022	7,000
Clark, Dodge & Co. Incorporated 140 Broadway, New York, N. Y. 10005	7,000
Dominick & Dominick, Incorporated 14 Wall Street, New York, N. Y. 10005	7,000
Robert Fleming Incorporated 100 Wall Street, New York, N. Y. 10005	7,000
Hallgarten & Co. 44 Wall Street, New York, N. Y. 10005	7,000
E. F. Hutton & Company Inc. One Battery Park Plaza, New York, N. Y. 10004	7,000
W. E. Hutton & Co. 14 Wall Street, New York, N. Y. 10005	7,000
Ladenburg, Thalmann & Co. 25 Broad Street, New York, N. Y. 10004	7,000
Paribas Corporation 40 Wall Street, New York, N. Y. 10005	7,000
Reynolds & Co. 120 Broadway, New York, N. Y. 10005	7,000
L. F. Rothschild & Co. 99 William Street, New York, N. Y. 10038	7,000
Shields & Company Incorporated 44 Wall Street, New York, N. Y. 10005	7,000

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<u>Names and Addresses of Underwriters</u>	<u>Number of Shares of Preferred Stock to be Purchased</u>
SoGen International Corporation 595 Madison Avenue, New York, N. Y. 10022	7,000
Spencer Trask & Co. Incorporated 60 Broad Street, New York, N. Y. 10004	7,000
Tucker, Anthony & R. L. Day 120 Broadway, New York, N. Y. 10005	7,000
G. H. Walker & Co. Incorporated 45 Wall Street, New York, N. Y. 10005	7,000
Walston & Co., Inc. 77 Water Street, New York, N. Y. 10005	7,000
Wood, Struthers & Winthrop Inc. 20 Exchange Place, New York, N. Y. 10005	7,000
Estabrook & Co., Inc. 80 Pine Street, New York, N. Y. 10005	4,500
Faulkner, Dawkins & Sullivan Securities Inc. One New York Plaza, New York, N. Y. 10004	4,500
Thomson & McKinnon Auchincloss Inc. 2 Broadway, New York, N. Y. 10004	4,500
C. E. Unterberg, Towbin Co. 61 Broadway, New York, N. Y. 10006	4,500
Bacon, Whipple & Co. 135 South La Salle Street, Chicago, Illinois 60603	2,500
Dain, Kalman & Quail, Incorporated 100 Dain Tower, Minneapolis, Minnesota 55402	2,500
Laird Incorporated 140 Broadway, New York, N. Y. 10005	2,500
McDonald & Company 2100 Central National Bank Bldg., Cleveland, Ohio 44114	2,500
Mitchum, Jones & Templeton Incorporated 510 South Spring Street, Los Angeles, California 90013	2,500
Putnam, Coffin, Doolittle, Newburger, Division of Advest Co. 115 Broadway, New York, N. Y. 10006	2,500
Rauscher Pierce Securities Corporation 1200 Mercantile Dallas Bldg., Dallas, Texas 75201	2,500
Suez American Corporation 77 Water Street, New York, N. Y. 10005	2,500
Watling, Lerchen & Co. Ford Bldg., Detroit, Michigan 48226	2,500
George D. B. Bonbright & Co. 1 West Main Street, Rochester, N. Y. 14614	1,500
Bosworth, Sullivan & Company, Inc. 660 Seventeenth Street, Denver, Colorado 80202	1,500
Common, Dann & Co., Inc. 502 Marine Trust Bldg., Buffalo, N. Y. 14203	1,500
Moore & Schley, Cameron & Co. Two Broadway, New York, N. Y. 10004	1,500
Murch & Co., Inc. 330 Hanna Bldg., Cleveland, Ohio 44115	1,500
Newhard, Cook & Co. 400 Olive Street, St. Louis, Missouri 63102	1,500

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<u>Names and Addresses of Underwriters</u>	<u>Number of Shares of Preferred Stock to be Purchased</u>
Underwood, Neuhaus & Co. Incorporated 724 Travis Street, Houston, Texas 77002	1,500
Wood, Walker & Co. 63 Wall Street, New York, N. Y. 10005	1,500
Banque de Bruxelles S.A. 2 Rue de la Regence, Brussels, Belgium	7,000
Banque de Neuflyze, Schlumberger, Mallet 12 Place de la Bourse, Paris 2E, France	7,000
Banque Rothschild 21, Rue Laffitte, Paris 9, France	7,000
Den Norske Creditbank 21 Kirkegaten, Oslo, Norway	7,000
S. G. Warburg & Co. Limited 30 Gresham Street, London, EC2P 2EB, England	7,000
Total	500,000

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EXHIBIT B

STIRLING HOMEX CORPORATION
(a Delaware corporation)**500,000 Shares of \$2.40 Cumulative Convertible Preferred Stock**
(Par Value \$1 Per Share)**SELECTED DEALERS AGREEMENT**

, 1971

Gentlemen:

We and the other Underwriters named in the enclosed Prospectus have severally agreed to purchase from Stirling Homex Corporation, a Delaware corporation (the "Company"), an aggregate of 500,000 shares of \$2.40 Cumulative Convertible Preferred Stock, par value \$1 per share, of the Company (the "Preferred Stock"). The Preferred Stock and certain of the terms on which it is being purchased and offered are more fully described in the enclosed Prospectus.

On behalf of the Underwriters, we are severally offering to certain dealers, among whom any of the Underwriters may be included, who are either members of the National Association of Securities Dealers, Inc. or foreign dealers who, if registered under the Securities Exchange Act of 1934, agree that in making any sales to purchasers within the United States they will conform to the Rules of Fair Practice of such Association or, if not so registered, agree to make no sales within the United States, its territories or its possessions or to persons who are citizens thereof or residents therein, subject to prior sale, when, as and if delivered to and accepted by the Underwriters and subject to the approval of legal matters by their counsel and subject to the other terms and conditions hereof, a part of the Preferred Stock at the public offering price per share less a concession of \$1.20 per share.

The public offering price of the Preferred Stock is to be \$40.00 per share plus accrued dividends, if any, from the date of delivery of such stock to the Underwriters. Dealers who accept this Agreement may allow a discount of not in excess of \$.50 per share sold to any other dealers who are either members of the National Association of Securities Dealers, Inc. or foreign dealers who agree to abide by the conditions with respect to foreign dealers set forth in the preceding paragraph.

All orders will be strictly subject to confirmation, and we reserve the right in our uncontrolled discretion to reject any order in whole or in part, to accept or reject orders in the order of their receipt or otherwise, and to allot. Neither you nor any other person is authorized by the Company or the Underwriters to give any information or make any representations other than those contained in the Prospectus in connection with the sale of any of the Preferred Stock. No dealer is authorized to act as agent for the Underwriters when offering any of the shares of Preferred Stock to the public or otherwise.

Upon release by us, you may offer Preferred Stock at the public offering price, subject to the terms and conditions hereof. The Underwriters and the Selected Dealers may, with our consent, purchase Preferred Stock from and sell Preferred Stock to each other at the public offering price less a concession no greater than the concession to Selected Dealers.

Payment for Preferred Stock purchased by you is to be made by certified or official bank check at the office of Merrill Lynch, Pierce, Fenner & Smith Incorporated, 70 Pine Street, New York, N. Y. 10005, at the public offering price less the above concession, on such date as we may advise, in New York Clearing House funds to our order against delivery of the Preferred Stock to be purchased by you.

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This Agreement shall terminate at the close of business on the 45th day after the effective date of the Registration Statement, unless earlier terminated. We may terminate this Agreement at any time by written or telegraphic notice.

In the event that prior to the termination of this Agreement we purchase, or contract to purchase for the accounts of the Underwriters, in the open market or otherwise, any shares of Preferred Stock delivered to you, you agree to repay to us for the accounts of the Underwriters the amount of the above concession to Selected Dealers plus brokerage commissions and transfer taxes paid in connection with such purchase or contract to purchase.

You agree that at any time or times prior to the termination of this Agreement you will, upon our request, report to us the number of shares of Preferred Stock purchased by you under this Agreement which then remains unsold by you and will, upon our request, at any such time or times sell to us for the account of one or more of the Underwriters such number of such unsold shares as we may designate, at the public offering price less an amount to be determined by us not in excess of the concession allowed you.

We shall have full authority to take such action as we may deem advisable in respect to all matters pertaining to the offering. We shall be under no liability to you except for lack of good faith and for obligations expressly assumed by us in this Agreement. Nothing contained in this paragraph is intended to operate as, and the provisions of this paragraph shall not in any way whatsoever constitute, a waiver by you of compliance with any provision of the Securities Act of 1933, as amended, or of the rules and regulations of the Securities and Exchange Commission issued thereunder.

Upon application to us, we will inform you as to the jurisdictions in which we believe the Preferred Stock has been qualified for sale under, or is exempt from the requirements of, the respective securities laws of such jurisdictions, but we assume no responsibility or obligation as to your right to sell the Preferred Stock in any jurisdiction.

We will send by registered mail to the Pennsylvania Securities Commission a copy of the Prospectus and a list of the Selected Dealers to whom this Agreement is initially being sent. We will also file with the Department of State of New York a Further State Notice with respect to the Preferred Stock, if necessary.

Additional copies of the Prospectus will be supplied in reasonable quantities upon request.

Any notice from us to you shall be deemed to have been duly given if mailed or telegraphed to you at the address to which this Agreement is mailed.

Please confirm your agreement hereto and indicate the number of shares of Preferred Stock ordered by you by telegraphing your acceptance and order and by signing and returning at once to us at 70 Pine Street, New York, N. Y. 10005, the enclosed duplicate of this letter. Upon receipt thereof this letter and such signed duplicate copy will evidence the agreement between us.

Very truly yours,

MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

By
(Authorized Signature)

*Acting on behalf of itself and the
other several Underwriters*

Government's Exhibit 12

ACCEPTANCE AND ORDER

MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED

70 Pine Street
New York, N. Y. 10005

Dear Sirs:

We hereby enter our order for shares of \$2.40 Cumulative Convertible Preferred Stock of Stirling Homex Corporation, a Delaware corporation, under the terms and conditions of the foregoing letter.

We hereby confirm our agreement to all the terms and conditions stated in the foregoing letter. We acknowledge receipt of the Prospectus relating to the Preferred Stock and we further state that in entering this order we have relied upon said Prospectus and no other statements whatsoever, written or oral. We confirm that we are a member in good standing of the National Association of Securities Dealers, Inc., or, if we are not such a member, we are either (i) a foreign dealer registered under the Securities Exchange Act of 1934 who agrees to conform to the Rules of Fair Practice of such Association in making sales to purchasers within the United States or (ii) a foreign dealer not so registered who agrees to make no sales within the United States, its territories or its possessions or to persons who are citizens thereof or residents therein.

Dated: , 1971

By

.....
(Authorized Representative)

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EXHIBIT 30

CERTIFICATE

Setting Forth the Designation and Certain of the Terms
of the
\$2.40 CUMULATIVE CONVERTIBLE PREFERRED STOCK
of
STIRLING HOMEX CORPORATION

Pursuant to Section 151 of the General Corporation Law of the State of Delaware

STIRLING HOMEX CORPORATION (hereinafter called the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY as follows:

FIRST: The Certificate of Incorporation, as heretofore restated, of the Corporation authorizes the issuance of 500,000 shares of Preferred Stock of the par value of \$1 per share and provides that the Preferred Stock may be issued from time to time in one or more series as determined by the Board of Directors, with such voting powers, full or limited or no voting powers, and having such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, as are stated and expressed therein or, to the extent they are not so stated and expressed therein, in the resolution or resolutions providing for the issue of such stock adopted by the Board of Directors pursuant to authority expressly vested in it by the provisions of the Certificate of Incorporation as heretofore restated.

SECOND: The Board of Directors of the Corporation at a meeting duly called and held on the 28th day of July, 1971, at which meeting a quorum of the directors was present and acting throughout, duly adopted the following resolutions authorizing the creation of a series of said Preferred Stock to be known as \$2.40 Cumulative Convertible Preferred Stock, stating that 500,000 shares of the authorized and unissued Preferred Stock shall belong to such series and setting forth a statement of the powers, designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, of the \$2.40 Cumulative Convertible Preferred Stock, which have not been set forth in the Restated Certificate of Incorporation.

RESOLVED that 500,000 shares of the presently authorized but unissued Preferred Stock, of the par value of \$1 per share, of Stirling Homex Corporation (hereinafter in these resolutions called the "Corporation") be and hereby are determined to be and shall be of a series hereby designated as \$2.40 Cumulative Convertible Preferred Stock; and

RESOLVED that the following is a statement of the powers, designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, of the \$2.40 Cumulative Convertible Preferred Stock (hereinafter called the "Convertible Preferred Stock") which have not been set forth in the Restated Certificate of Incorporation:

(a) The holders of the Convertible Preferred Stock shall be entitled to receive, and the Corporation shall be bound to pay thereon, but only as and when declared by the Board of Directors, out of funds legally available for the payment thereof, cumulative cash dividends, at the rate of \$2.40 per share per annum, and no more, payable quarterly on the last day of January, April, July and October in each year to stockholders of record on the respective dates, not exceeding sixty days preceding such dividend payment dates fixed for the purpose by the Board of Directors in advance of payment of each particular dividend. Dividends shall com-

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mence to accrue from the date of issue of such shares of Convertible Preferred Stock, provided the first dividend on shares of the Convertible Preferred Stock shall be payable October 31, 1971, for the period beginning with the date of issue of such shares and ending October 31, 1971. Such dividends shall be cumulative and shall be deemed to accrue from day to day regardless of whether or not the Corporation shall have funds legally available for the payment of such dividends. The Corporation in making any dividend payment upon the Convertible Preferred Stock shall make dividend payments ratably upon all outstanding shares of Convertible Preferred Stock in proportion to the amount of the dividends accrued thereon to the date of such dividend payment.

In no event, so long as any Convertible Preferred Stock shall remain outstanding, shall any dividend whatsoever be declared or paid upon, nor shall any distribution be made or ordered in respect of, the Common Stock or any other class of stock ranking junior to the Convertible Preferred Stock, nor shall any moneys be set aside for or applied to the purchase or redemption (through a sinking fund or otherwise) of shares of Common Stock or of any other such junior class of stock, unless all dividends on the Convertible Preferred Stock for all past quarterly dividend periods shall have been paid and the full dividend on all outstanding shares of Convertible Preferred Stock for the then current quarterly dividend period shall have been paid or declared and set apart for payment.

(b) The Corporation, at the option of the Board of Directors, may at any time redeem the whole, or from time to time may redeem any part, of the Convertible Preferred Stock by paying therefor in cash the amount per share set forth below (hereinafter referred to as the "redemption price"), plus in each case accrued dividends to the redemption date on shares redeemed:

If redeemed during the 12 months period beginning August 1	Redemption price	If redeemed during the 12 months period beginning August 1	Redemption price
1971	\$50	1976	\$45
1972	49	1977	44
1973	48	1978	43
1974	47	1979	42
1975	46	1980	41
		1981 and thereafter	40

For the purposes of these resolutions, the term "accrued dividends" or "dividends accrued" shall be deemed to mean an amount which shall be computed at the annual dividend rate set forth in subdivision (a) above from the date on which dividends on the shares redeemed became cumulative to and including the date fixed for redemption less the aggregate amount of all dividends theretofore paid on such shares, computed without interest.

Less than all of the Convertible Preferred Stock may be redeemed only after full cumulative dividends upon the Convertible Preferred Stock then outstanding shall have been paid for all past quarterly dividend periods and after or concurrently with making payment of, or declaring and setting apart for payment, the full dividend on all outstanding shares of Convertible Preferred Stock for the then current quarterly dividend period. If less than all of the outstanding shares of Convertible Preferred Stock are to be called for redemption, the shares to be redeemed shall be selected by whichever of the following methods the Board of Directors shall choose; by lot or *pro rata* in such manner as may be prescribed by resolution of the Board of Directors. Not more than sixty (60) days and not less than thirty (30) days prior to the redemption date, notice of the proposed redemption shall be mailed to the holders of record of the Convertible Preferred Stock to be redeemed, such notice to be addressed to each such stockholder at his last known post office address shown on the records of the Corporation and the time of mailing such notice shall be deemed to be the time of the giving thereof. On or after the date of redemption stated in such notice (sometimes referred to in this subdivision (b)

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as the "redemption date"), each holder of Convertible Preferred Stock called for redemption shall surrender his certificate(s) for such stock to the Corporation at the place designated in such notice and shall thereupon be entitled to receive payment of the redemption price. In case less than all the shares represented by any such surrendered certificate are redeemed, a new certificate shall be issued representing the unredeemed shares. If such notice of redemption shall have been given as aforesaid, and if on or before the redemption date funds necessary for the redemption shall have been set aside so as to be and continue available therefor, then, notwithstanding that the certificates representing any shares of Convertible Preferred Stock so called for redemption shall not have been surrendered, the dividends thereon shall cease to accrue after the redemption date, and all rights with respect to the shares so called for redemption shall forthwith after such redemption date cease and terminate, except only the right of the holders to receive the redemption price without interest. If such notice of redemption of all or any part of the Convertible Preferred Stock shall have been mailed as aforesaid and the Corporation shall thereafter deposit money for the payment of the redemption price pursuant thereto with any bank or trust company (referred to in this subdivision (b) as the "depository") in the Borough of Manhattan, City and State of New York, having a combined capital and surplus of not less than \$20,000,000, selected by the Board of Directors for that purpose, to be applied to such redemption, then from and after the making of such deposit, such shares shall not be deemed to be outstanding for any purpose, and the rights of the holders thereof shall be limited to the right to receive payment of the redemption price (without interest but including accrued dividends to the redemption date) from the depository upon endorsement, if required, and surrender of the certificates therefor, *provided, however*, that no then existing right of conversion, if any, with respect to such shares shall be impaired by such deposit. Any moneys so deposited which shall not be required for such redemption because of the exercise of any such right of conversion subsequent to the date of such deposit shall be returned to the Corporation forthwith. The Corporation shall be entitled to receive from time to time, from the depository, the interest, if any, allowed on such moneys deposited with it, and the holders of any shares so redeemed shall have no claim to any such interest. Any moneys so deposited and remaining unclaimed at the end of five (5) years from the redemption date shall, if thereafter requested by resolution of the Board of Directors, be repaid to the Corporation, and in the event of such repayment to the Corporation, such holders of record of the shares so called for redemption as shall not have made claim against such moneys prior to such repayment to the Corporation shall be deemed to be unsecured creditors of the Corporation for an amount equivalent to the amount deposited as above stated for the redemption of such shares and so repaid to the Corporation, but shall in no event be entitled to any interest.

Subject to the provisions hereof, the Board of Directors shall have authority to prescribe from time to time the manner in which Convertible Preferred Stock shall be redeemed.

Nothing herein contained shall limit any legal right of the Corporation to purchase any shares of the Convertible Preferred Stock; provided however that, except in accordance with an offer made to all holders of Convertible Preferred Stock, the Corporation shall not purchase or otherwise acquire for a consideration (or permit any subsidiary to purchase or otherwise acquire for a consideration) any shares of the Convertible Preferred Stock unless full dividends shall have been paid or declared and set apart for payment on the Convertible Preferred Stock for at least two consecutive dividend periods.

The preferential amount to be paid to holders of the Convertible Preferred Stock upon any involuntary liquidation, dissolution or winding-up of the Corporation shall be \$40 per share plus accrued dividends to the date of distribution. The preferential amount to be paid to the holders of Convertible Preferred Stock upon any voluntary liquidation, dissolution or winding-up of the Corporation shall be equal to the amount per share at which shares of Convertible Preferred Stock could then be redeemed under the provisions of the foregoing subdivision (b).

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Upon any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, the holders of Convertible Preferred Stock shall be entitled, before any distribution shall be made to the holders of Common Stock or any other class of stock junior to the Convertible Preferred Stock, to be paid the full preferential amount as aforesaid, but the holders of Convertible Preferred Stock shall not be entitled to any further payment; if upon such liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary, the net assets of the Corporation shall be insufficient to permit the payment to all holders of outstanding shares of Convertible Preferred Stock of the full preferential amounts to which they are respectively entitled as aforesaid, then the entire net assets of the Corporation shall be distributed ratably to all holders of outstanding shares of Convertible Preferred Stock in proportion to the full preferential amount to which each such share is entitled as aforesaid.

Neither a consolidation nor merger of the Corporation with or into any other corporation or corporations, nor the sale of all or substantially all of the assets of the Corporation, shall be deemed to be a liquidation, dissolution or winding-up, within the meaning of this subdivision.

(d) The holders of shares of Convertible Preferred Stock shall have the right, at their option, to convert such shares into shares of Common Stock of the Corporation on the following terms and conditions:

(1) The shares of Convertible Preferred Stock shall be convertible, at any time, at the office of the Transfer Agent therefor in The City of New York or such other conversion agent or agents of the Corporation in The City of New York as may be designated by the Board of Directors, into fully paid and non-assessable shares (calculated to the nearest 1/100th of a share) of Common Stock of the Corporation at the conversion price in effect at the time of conversion determined as hereinafter provided, each share of Convertible Preferred Stock being taken at \$40 for the purpose of such conversion. The price at which shares of Common Stock shall be delivered upon conversion (herein called the "conversion price") shall be initially \$14.50 per share of Common Stock, provided, however, that such initial conversion price shall be subject to adjustment from time to time in certain instances as hereinafter provided. The Corporation shall make no payment or adjustment on account of dividends accrued on the shares of Convertible Preferred Stock surrendered for conversion or on account of any dividends accrued on the Common Stock. In case of the call for redemption of any shares of Convertible Preferred Stock, such right of conversion shall cease and terminate, as to the shares designated for redemption, at the close of business on the last business day before the date fixed for redemption, unless default shall be made in the payment of the redemption price.

(2) Before any holder of shares of Convertible Preferred Stock shall be entitled to convert the same into Common Stock, he shall surrender the certificate or certificates therefor at the office of the Transfer Agent or other conversion agent hereinabove mentioned, with written notice to the Corporation in the form endorsed on such certificates of his election to convert such Convertible Preferred Stock into Common Stock duly filled out and executed. If more than one stock certificate for Convertible Preferred Stock shall be surrendered for conversion at one time by the same holder, the number of full shares of Common Stock which shall be issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares represented by all the certificates so surrendered. The Corporation will, as soon as practicable thereafter, issue and deliver at said office to such holder of shares of Convertible Preferred Stock, or to his nominee or nominees, certificates for the number of full shares of Common Stock to which he shall be entitled as aforesaid, together with a cash payment in lieu of any fraction of a share as hereinafter provided. Shares of Convertible Preferred Stock shall be deemed to have been converted as of the date on which such shares shall have been surrendered to and such notice received by the Corporation as aforesaid, at the office of said Transfer Agent or other conversion agent and the person or persons in whose name or names any certificate or certificates for

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Common Stock shall be issuable upon such conversion shall be deemed to have become on said date the holder or holders of record for all purposes of the shares represented thereby.

(3) The conversion price shall be adjusted from time to time as follows:

(A) In case the Corporation shall at any time (i) pay a dividend or distribution in shares of its Common Stock, (ii) subdivide its outstanding shares of Common Stock, (iii) combine its outstanding shares of Common Stock into a smaller number of shares, or (iv) issue by reclassification of its shares of Common Stock any shares of stock of the Corporation, the conversion price in effect immediately prior thereto shall be adjusted so that the holder of any shares of Convertible Preferred Stock thereafter surrendered for conversion shall be entitled to receive the number of shares of Common Stock or other securities of the Corporation which he would have owned or have been entitled to receive after the happening of any of the events described above, had such shares of Convertible Preferred Stock been converted immediately prior to the happening of such event. An adjustment made pursuant to this paragraph (3) shall become effective, in the case of a dividend, at the close of business on the record date for the determination of stockholders entitled to receive such dividend, subject to the provisions of subparagraph (F) of this paragraph (3), and shall become effective in the case of a subdivision, combination or reclassification, immediately after the opening of business on the day following the day when such subdivision, combination or reclassification, as the case may be, becomes effective.

(B) In case the Corporation shall at any time issue rights or warrants to all holders of shares of its Common Stock entitling them (for a period expiring within 45 days of the record date mentioned below) to subscribe for or purchase shares of Common Stock at a price per share less than the current market price per share of Common Stock (as defined in subparagraph (D) of this paragraph (3)) at such record date, the conversion price in effect immediately prior to the issuance of such rights or warrants shall be adjusted as follows: the number of shares of Common Stock into which each share of Convertible Preferred Stock was theretofore convertible shall be multiplied by a fraction, of which the numerator shall be the number of shares of Common Stock outstanding immediately prior to such record date plus the number of additional shares of Common Stock offered for subscription or purchase, and of which the denominator shall be the number of shares of Common Stock outstanding immediately prior to such record date plus the number of shares which the aggregate offering price of the total number of shares so offered would purchase at such current market price; and the conversion price shall be adjusted by dividing \$40 by the new number of shares into which each share of Convertible Preferred Stock shall be convertible as aforesaid. Such adjustment shall become effective at the close of business on the record date for the determination of stockholders entitled to receive such rights or warrants, subject to the provisions of subparagraph (F) of this paragraph (3).

(C) In case the Corporation shall at any time distribute to the holders of shares of its Common Stock evidences of its indebtedness or securities or assets (excluding cash dividends or cash distributions payable out of earnings and distributions and redemptions to which subparagraph (A) of this paragraph (3) is applicable) or rights to subscribe (excluding those to which subparagraph (B) of this paragraph (3) is applicable), the conversion price in effect immediately prior to such distribution shall be adjusted by multiplying the number of shares of Common Stock into which each share of Convertible Preferred Stock was theretofore convertible by a fraction, of which the

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numerator shall be the current market price per share of Common Stock (as defined in subparagraph (D) of this paragraph (3)) on the record date for such distribution, and of which the denominator shall be such current market price per share of the Common Stock less the then fair market value (as determined by the Board of Directors of the Corporation, whose determination shall be conclusive) of the portion of the assets or securities or evidences of indebtedness so distributed or of such subscription rights applicable to one share of Common Stock; and the conversion price shall be adjusted by dividing \$40 by the new number of shares into which each share of Convertible Preferred Stock shall be convertible as aforesaid. Such adjustment shall become effective at the close of business on the record date for the determination of stockholders entitled to receive such distribution, subject to the provisions of subparagraph (F) of this paragraph (3). For the purposes of this subparagraph (C) earnings shall be computed by adding thereto all charges against retained earnings on account of dividends paid in shares of Common Stock in respect of which the conversion price has been adjusted, all as determined by the independent public accountants then regularly auditing the accounts of the Corporation, whose determination shall be conclusive.

(D) For the purpose of any computation under subparagraphs (B) and (C) above, the current market price per share of Common Stock at any date shall be deemed to be the average of the market values of the Common Stock for the ten consecutive business days immediately preceding the day in question. The market value of the Common Stock for each day shall be determined as provided in paragraph (9) hereof.

(E) Except as herein otherwise provided, no adjustment in the conversion price shall be made by reason of the issuance in exchange for cash, property or services of shares of Common Stock, or any securities convertible into or exchangeable for shares of Common Stock, or carrying the right to purchase any of the foregoing.

(F) If the Corporation shall take a record of the holders of its Common Stock for the purpose of entitling them to receive any dividend or any subscription or purchase rights or any distribution and shall, thereafter and before the distribution to stockholders of any such dividend, subscription or purchase rights or distribution, legally abandon its plan to pay or deliver such dividend, subscription or purchase rights or distribution, then no adjustment of the conversion price shall be required by reason of the taking of such record.

(4) Anything in this subdivision (d) to the contrary notwithstanding, the Corporation shall not be required to give effect to any adjustment in the conversion price unless and until the net effect of one or more adjustments, determined as above provided, shall have resulted in a change of the conversion price by at least twenty-five cents (25¢), but when the cumulative net effect of more than one adjustment so determined shall be to change the conversion price by at least twenty-five cents (25¢), such change in the conversion price shall thereupon be given effect.

(5) In case of any capital reorganization or any reclassification of the capital stock of the Corporation or in case of the consolidation or merger of the Corporation with or into another corporation or the conveyance of all or substantially all of the assets of the Corporation to another corporation, each share of the Convertible Preferred Stock shall thereafter be convertible into the number of shares of stock or other securities or property to which a holder of the number of shares of Common Stock of the Corporation deliverable upon conversion of such share of the Convertible Preferred Stock would have been entitled upon such reorganization, reclassification, consolidation, merger or conveyance; and, in any such case, appropriate adjustment (as determined by the Board of Directors) shall be made in the application of the provisions herein set forth with respect to the rights and

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interests thereafter of the holders of the Convertible Preferred Stock, to the end that the provisions set forth herein (including provisions with respect to changes in, and other adjustments of, the conversion price) shall thereafter be applicable, as nearly as reasonably may be, in relation to any shares of stock or other property thereafter deliverable upon the conversion of shares of the Convertible Preferred Stock.

(6) Whenever the conversion price is adjusted as herein provided, the Treasurer of the Corporation shall compute the adjusted conversion price in accordance with this subdivision (d) and shall prepare a certificate setting forth such adjusted conversion price and showing the computation of the adjusted conversion price and the facts upon which such adjustment is based, including if appropriate, a statement of the consideration received or to be received by the Corporation for any additional stock issued or sold or deemed to have been issued or sold and of the number of shares of Common Stock outstanding or deemed to be outstanding, and such certificate shall forthwith be filed with the Transfer Agent and each other conversion agent for the Convertible Preferred Stock.

(7) In case:

(i) the Corporation shall declare a dividend (or any other distribution) on its Common Stock payable otherwise than in cash; or

(ii) the Corporation shall authorize the granting to the holders of its Common Stock of rights to subscribe for or purchase any shares of stock of any class or to receive any other rights; or

(iii) of any capital reorganization of the Corporation, reclassification of the capital stock of the Corporation, consolidation or merger of the Corporation with or into another corporation, or sale, lease or conveyance of all or substantially all of the assets of the Corporation to another corporation; or

(iv) of the voluntary or involuntary dissolution, liquidation or winding-up of the Corporation;

then, and in any such case, the Corporation shall cause to be mailed to the Transfer Agent and to each other conversion agent for the Convertible Preferred Stock and to the holders of record of the outstanding shares of the Convertible Preferred Stock, at least ten (10) days prior to the date hereinafter specified, a notice stating (a) the date on which a record is to be taken for the purpose of such dividend, distribution of rights, or, if a record is not to be taken, the date as of which the holders of Common Stock are to be determined, or (b) the date on which such reclassification, reorganization, consolidation, merger, sale, lease, conveyance, dissolution, liquidation or winding-up is to take place, and the date, if any is to be fixed, as of which holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such reclassification, reorganization, consolidation, merger, dissolution, liquidation or winding-up.

(8) The Corporation shall at all times reserve and keep available, out of its authorized but unissued Common Stock, solely for the purpose of effecting the conversion of the shares of the Convertible Preferred Stock, the full number of shares of Common Stock deliverable upon the conversion of all shares of the Convertible Preferred Stock from time to time outstanding. The Corporation shall from time to time, in accordance with the laws of the State of Delaware, increase the authorized amount of its Common Stock if at any time the number of shares of Common Stock remaining unissued shall not be sufficient to permit the conversion of all of the shares of the Convertible Preferred Stock at the time outstanding.

(9) No fractional shares of Common Stock are to be issued upon conversion, but in lieu thereof the Corporation shall pay a cash adjustment in respect of any fraction of a share which would otherwise be issuable, in an amount equal to the same fraction of the market price per share of Common Stock on the date of conversion. For the purpose hereof

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the term "market price" shall mean the closing sale price on the date of conversion (or, if there was no sale on such date, the mean between the closing bid and asked prices) on the principal stock exchange on which the Common Stock is listed or, if the Common Stock is not listed on a national securities exchange, the mean between the highest bid and lowest asked prices for the Common Stock on the over-the-counter market in New York City on the date of conversion.

(10) The Corporation will pay any and all issue and other taxes that may be payable in respect of any issue or delivery of shares of Common Stock on conversion of shares of the Convertible Preferred Stock pursuant hereto. The Corporation shall not, however, be required to pay any tax which may be payable in respect of any transfer involved in the issue and delivery of shares of Common Stock in a name other than that in which the shares of the Convertible Preferred Stock so converted were registered, and no such issue or delivery shall be made unless and until the person requesting such issue has paid to the Corporation the amount of any such tax, or has established, to the satisfaction of the Corporation, that such tax has been paid.

(11) The Corporation shall not take any action which would, pursuant to the provisions of this subdivision (d), reduce the conversion price to an amount less than the par value per share, if any, of the Common Stock into which shares of the Convertible Preferred Stock are at the time convertible.

(12) Whenever reference is made in this subdivision (d) to the issue or sale of shares of Common Stock, the term "Common Stock" shall include any stock of any class of the Corporation, other than preferred or preference stock with a fixed limit on dividends and a fixed amount payable in the event of any voluntary or involuntary liquidation, dissolution or winding-up of the Corporation.

(e) Except as otherwise specifically provided in the certificate of incorporation of the Corporation, or as otherwise expressly required by law, the Convertible Preferred Stock shall not have any right to vote for the election of directors or for any other purpose, and said stock shall not be entitled to any notice of any meeting of stockholders:

Provided, however, that if and whenever dividends on the Convertible Preferred Stock shall be in arrears and such arrears shall aggregate an amount at least equal to four quarterly dividends thereon (whether or not consecutive), then the number of directors of the Corporation shall be increased by two and the Convertible Preferred Stock shall have the right, voting as a class, to elect two directors of the Corporation, until all arrears in dividends on the Convertible Preferred Stock shall have been paid in full and the current quarterly dividend thereon for the current quarterly dividend period shall have been declared and set apart for payment, and thereupon all voting rights and rights to notice of stockholders' meetings given by this proviso shall be divested from the holders of the Convertible Preferred Stock (subject, however, to being, at any time or from time to time, similarly revived and divested). At any time after the holders of the Convertible Preferred Stock shall have thus become entitled to elect two members of the Board of Directors of the Corporation, the Secretary of the Corporation may, and upon the written request of holders of record of at least 10% of the Convertible Preferred Stock then outstanding addressed to him at the statutory office of the Corporation in Delaware shall, call a special meeting of the holders of Convertible Preferred Stock for the purpose of electing such two additional directors to be held within forty days of the receipt of such request at said principal office of the Corporation upon the notice provided by law and the By-laws for the holding of special meetings of stockholders: *provided, however,* that the Secretary need not call any such special meeting at the request of such holders of Convertible Preferred Stock if the annual meeting of stockholders is to convene within ninety days after receipt by the Secretary of such request. If such special meeting shall not be called by the Secretary

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within twenty days after receipt of such request (not including, however, a request falling within the proviso to the foregoing sentence), then the holders of record of at least 10% of the Convertible Preferred Stock then outstanding may designate in writing one of their number to call such meeting at the place and upon the notice above provided, and any person so designated for that purpose shall have access to the stock books of the Corporation for such purpose. At any such special meeting or at any annual meeting at which the holders of Convertible Preferred Stock shall be entitled to vote for the election of two directors as aforesaid, the holders of a majority of the then outstanding Convertible Preferred Stock present in person or by proxy shall be sufficient to constitute a quorum for the election of such two directors and for no other purpose, and the vote of the holders of a majority of the Convertible Preferred Stock so present at any such meeting at which there shall be such a quorum shall be sufficient to elect such two directors. The two persons so elected as directors, together with the directors elected by the Common Stock or any other class or classes of stock having voting rights for the election of directors, shall constitute the Board of Directors of the Corporation. Whenever the Convertible Preferred Stock shall be divested of such voting right as hereinabove provided, the two additional directors so elected by the Convertible Preferred Stock shall thereupon cease to be directors of the Corporation.

Except as otherwise expressly provided hereinabove in this subdivision, (e) and hereinbelow in subdivisions (f) and (g) with respect to the Convertible Preferred Stock, and except as otherwise may be required by law, the Common Stock shall have the exclusive rights to vote for the election of directors and for all other purposes.

Each stockholder entitled to vote at any particular time in accordance with the foregoing provisions shall have one vote for each share of stock held of record by him and at the time entitled to voting rights.

Except as provided hereinbelow in subdivisions (f) and (g), the amount of the authorized stock of any class or classes of the Corporation may be increased or decreased by the affirmative vote of the holders of a majority of the stock of the Corporation entitled to vote.

(f) So long as any shares of Convertible Preferred Stock are outstanding, the Corporation shall not, without the affirmative vote at a meeting (the notice of which shall state the general character of the matters to be submitted thereat), or the written consent with or without a meeting, of the holders of a least 66⅔% of the then outstanding shares of Convertible Preferred Stock:

(1) authorize or create, or increase the authorized amount of, any additional class of stock ranking prior to the Convertible Preferred Stock; or authorize or create, or increase the authorized amount of, any class of stock or obligations convertible into or evidencing the right to purchase any class of stock ranking prior to the Convertible Preferred Stock; or

(2) amend, alter or repeal any of the provisions of the Certificate of Incorporation or any of the rights, preferences or powers of the outstanding Convertible Preferred Stock fixed in these resolutions by the Board of Directors, so as to affect adversely the powers, designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, of the Convertible Preferred Stock or its holders; or

(3) merge or consolidate with or into any other corporation or corporations, unless the corporation resulting from such merger or consolidation will have after such merger or consolidation no class of stock either authorized or outstanding ranking prior to the Convertible Preferred Stock except the same number of shares of stock with the same rights, preferences and powers as the stock of the Corporation authorized and outstanding immediately preceding such merger or consolidation, and unless each holder of Convertible Preferred Stock

Government's Exhibit 12

immediately preceding such merger or consolidation shall receive the same number of shares, with the same powers, designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions thereof, of such resulting corporation; *provided, however*, that no vote of the holders of outstanding shares of Convertible Preferred Stock shall be required for the merger or consolidation of the Corporation on a basis which provides for the payment, or deposit with a bank or trust company (which shall meet the requirements specified for a "depository" in subdivision (b) above) of funds sufficient for the payment (not later than the effective date of such merger or consolidation) to the holders of such outstanding Convertible Preferred Stock of an amount equal to the amount which would have been payable to the holders of such shares if there had been a voluntary liquidation, dissolution or winding-up of the Corporation as of said date.

(g) So long as any shares of Convertible Preferred Stock are outstanding, the Corporation shall not, without the affirmative vote at a meeting (the notice of which shall state the general character of the matters to be submitted thereat) or the written consent with or without a meeting, of the holders of at least a majority of the then outstanding shares of Convertible Preferred Stock:

(1) increase the authorized amount of Preferred Stock; or authorize or create, or increase the authorized amount of, any additional class of stock ranking on a parity with the Preferred Stock; or authorize or create, or increase the authorized amount of, any class of stock or obligations convertible into or evidencing the right to purchase any class of stock ranking on a parity with the Preferred Stock; or

(2) sell, lease or convey (which terms shall not be deemed to include mortgage) all or substantially all, of its property or business; or voluntarily liquidate, dissolve or wind up its business; or merge into or consolidate with any other corporation or corporations; *provided, however*, that no vote of the holders of outstanding shares of Convertible Preferred Stock shall be required for the sale, lease or conveyance of all, or substantially all, of the property or business of the Corporation, or the merger or consolidation of the Corporation with or into any other corporation or corporations, on a basis which provides for the payment, or deposit with a bank or trust company (which shall meet the requirements specified for a "depository" in subdivision (b) above) of funds sufficient for the payment (not later than the effective date of such sale, lease, conveyance, merger or consolidation), to the holders of such outstanding Convertible Preferred Stock of an amount equal to the amount which would have been payable to the holders of such shares if there had been a voluntary liquidation, dissolution or winding-up of the Corporation as of said date.

(h) Subject to all of the rights of the Preferred Stock, dividends may be paid upon the Common Stock as and when declared by the Board of Directors out of the funds of the Corporation legally available for the payment thereof.

(i) All shares of Preferred Stock redeemed at the option of the Corporation or converted into Common Stock shall be retired in the manner provided by law and shall not be reissued.

Government's Exhibit 12

IN WITNESS WHEREOF, Stirling Homex Corporation has caused its corporate seal to be hereunto affixed and this Certificate to be signed by its President and its corporate seal to be attested by its Secretary, this day of July, 1971.

STIRLING HOMEX CORPORATION

[CORPORATE SEAL]

By
William G. Stirling, *President*

Attest:

.....
E. A. Bartz, *Secretary*

Government's Exhibit 12

STATE OF NEW YORK }
COUNTY OF LIVINGSTON } ss.

BE IT REMEMBERED that on this day of July, 1971, personally came before me, the subscriber, a notary public in and for the County and State aforesaid. WILLIAM G. STIRLING, President of STIRLING HOMEX CORPORATION, a corporation of the State of Delaware, the Corporation described in the foregoing Certificate, known to me personally to be such, and he, the said WILLIAM G. STIRLING, as such President, duly executed said Certificate before me, and acknowledged said Certificate to be his act and deed and the act and deed of said Corporation; that the signatures of said President and of the Secretary of said Corporation to the foregoing Certificate are in the handwritings of said President and said Secretary of said Corporation respectively; that the seal affixed to said Certificate is the common or corporate seal of said Corporation; that the act of sealing, executing, acknowledging and filing said Certificate was duly authorized by resolution of the Board of Directors; and that the facts stated in said Certificate are true.

GIVEN under my hand and seal of office the day and year aforesaid.

.....
Notary Public

[NOTARIAL SEAL]

Government's Exhibit 12

EXHIBIT 13h

RATIO OF EARNINGS TO FIXED CHARGES
AND PREFERRED DIVIDENDS

This Assumes a Dividend Rate of 6%

	Year Ended July 31, 1970	Nine Months Ended Apr. 30, 1971
Net Income as reported in the statement of income	\$2,035,189	\$1,831,213
Add: Interest Expense	648,181	1,308,809
Federal and State income taxes	2,320,379	1,924,766
One-third of rentals	286,627 (2)	215,509
Less Net Income of U.S. Shelter	-	(84,434)
	<u>5,290,376</u>	<u>5,195,863</u>
Fixed charges and preferred dividends:		
Interest expense	648,181	1,308,809
One-third of rentals	286,627 (2)	215,509
Annual dividend requirements on proposed issue of 500,000 preferred shares plus income taxes at effective rates during the periods presented	<u>2,614,400</u>	<u>1,840,500</u>
	3,549,208	3,364,818
Less reduction of interest expense as a result of \$20,000,000 pro forma re- duction in notes payable from offering proceeds.	<u>648,181 (3)</u>	<u>1,095,000 (4)</u>
	<u>2,901,027</u>	<u>2,269,818</u>
Ratio of earnings to fixed charges and preferred dividends	<u>1.8</u>	<u>2.3</u>

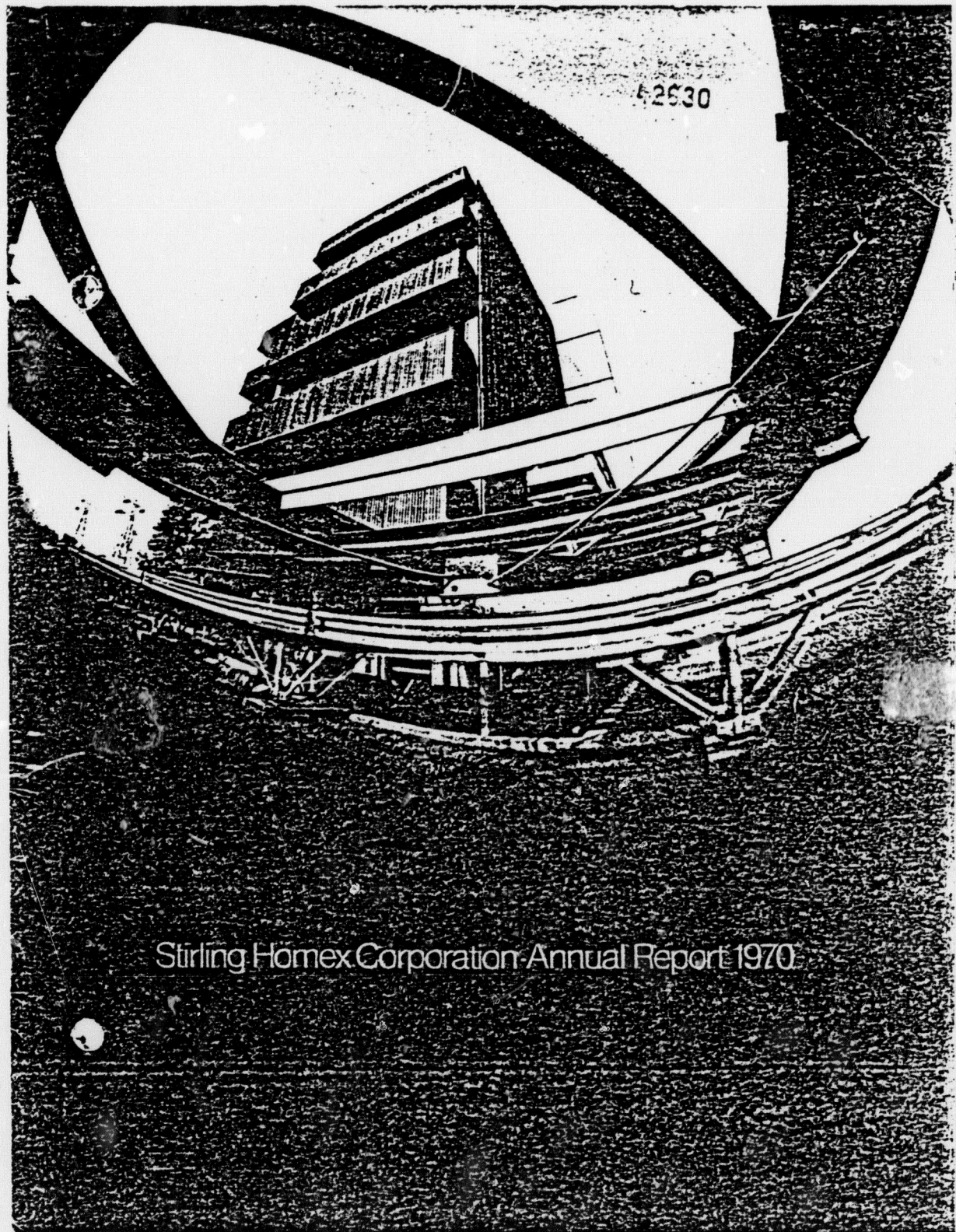
(1) Expenses related to acquisition of debt were immaterial and therefore not considered in this computation.

(2) Based on annualized rentals for the nine months ended April 30, 1971, as reported in Note 12 to the Financial Statements (\$646,527 x 1.3343).

(3) Average debt outstanding during the period was less than \$20,000,000.

Average debt outstanding during the period was \$23,086,000; therefore, net proceeds of \$20,000,000 times the average interest rate of 7.3% is deducted.

Government's Exhibit 14



Stirling Homex Corporation Annual Report 1970

Government's Exhibit 14

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Cover:
Stirling HOMEX HI-RISE Building installed at Avon,
New York, as seen through a 'fisheye' lens.

Government's Exhibit 14

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Highlights of the Year

July 31, 1969 to July 31, 1970

Doubled sales and earnings from the previous year.

Expanded manufacturing capacity 100 percent allowing full-scale volume production of either steel and concrete or wood-based modules.

Continued research and development, allowing entry into new major marketing areas.

Selected by the Department of Housing and Urban Development in national competition to participate in the "Operation Breakthrough" programs.

Completed development and installation of the Stirling HOMEX HI-RISE System at Avon, New York.

Built a space-age Training and Observation Facility for the new high-rise system.

Installed modern classrooms equipped with the latest audio/visual teaching materials for personnel training and improvement.

Made the first cross-country rail shipment of modular housing—1,000 miles by unit train.

Stirling Homex Corporation 

Government's Exhibit 14

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To Our Shareholders:

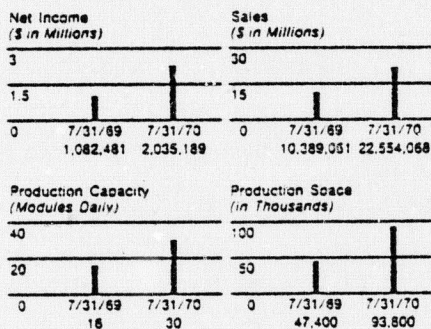
In this the first Annual Report of Stirling Homex Corporation, we are pleased to present a full account of the Company's activities and financial results. Fiscal 1970 was a successful year of continual growth in every way for Stirling Homex. The Company substantially increased its sales and earnings, production capacity, technology, facilities and manpower.

For the fiscal year ended July 31, 1970, Stirling Homex had earnings of \$2,035,189, an 88 percent increase from the previous year. Net income per share was 24 cents, compared with 13 cents in fiscal 1969. Sales in fiscal 1970 were \$22,554,068, a gain of 117 percent from a year earlier.

Backlog as of July 31 totaled \$52,000,000. This represented a gain of 73 percent from the close of fiscal 1969.

During the fiscal year, the Company realized \$6,502,215 from the sale of additional common stock. To enable us to meet our objectives for continued rapid growth, \$4,422,506 was invested in property, plant and equipment. The major portion of these expenditures was for the purpose of increasing production capacity. Working capital at July 31, 1970, was \$6,006,158, an increase of \$1,034,054 from the comparable 1969 figure. Depreciation and other non-cash charges amounted to \$538,291.

The rising national need for new homes, coupled with the continuing low level of new housing starts, has created a vast market for industrialized housing. Our increased sales and earnings reflect the growing national acceptance of quality modular housing that is manufactured efficiently on the production line, transported quickly by rail or truck and installed with record speed at sites across the country.



During the year, Stirling Homex further perfected its field-proven, low-rise modular townhouse system and advanced into high-rise construction, another mass-market field. The Company developed and has in operation a revolutionary new system of steel and concrete modular high-rise construction which employs hydraulic jacking to elevate completed floors up to twenty stories.

The Stirling HOMEX HI-RISE System was selected from several hundred submissions by the U. S. Department of Housing and Urban Development (HUD) in national competition as a winner in the far-sighted OPERATION BREAKTHROUGH program. The Company has U. S. and foreign patents pending on its factory-made modules and the unique installation method employed in the Hi-Rise System described elsewhere in this report.

In conjunction with OPERATION BREAKTHROUGH, Stirling Homex will install a 13-story high-rise structure containing more than 200 units at Memphis, Tennessee, and a medium-rise configuration of approximately 50 units at Kalamazoo, Michigan. The Company has successfully bid and won designation for other high-rise buildings under various housing programs.

At Akron, Ohio, the Company is continuing the rapid installation of 1,500 townhouse apartments purchased by the Akron Metropolitan Housing Authority. Under the leadership of Jack Saferstein, its Executive Director, the Akron Metropolitan Housing Authority worked with Stirling Homex in creating progressive developments in the field of housing. These included the trial shipments of modular housing by rail, the "checker-board" relocation of people from substandard housing to attractive new townhouses, and the mass staging of modules for large housing ventures.

Industrialized housing entered a new era on July 15 when the first unit train of Stirling Homex modular housing arrived at Corinth, Mississippi after a trip of approximately 1,000 miles. Having developed and perfected this new transportation technology, the Company is making regular long-distance shipments. Research now in progress will soon permit the very economical employment of barge transport. This utilization of the rapidly expanding inland waterway system will open new marketing areas at very competitive costs.

Presently under roof in Avon are over 200,000 square feet of specialized use space. Our manufacturing facilities include the most modern equipment available for this new industry. Assembly and component manufacture areas provide the corporation with the internal ability to supply elements of a diverse nature ranging from bathroom vanity cabinets to the lightweight concrete floor slabs used in the high-rise manufacturing process.

The Company has several additional plant sites under study in different parts of the nation. We expect to begin construction of a major manufacturing facility during the current fiscal year.

Stirling Homex also is expanding personnel in line with growth. Many new members of management were added to the Stirling Homex team. We have installed modern classrooms and equipment to give our people special training and improvement in the new techniques of our industry.

GOVERNMENT'S EXHIBIT 14

To provide both short and long term financing for a full range of housing products for Stirling Homex customers, a new wholly-owned mortgage banking subsidiary has recently been formed—U. S. Shelter Corporation.

Stirling Homex is pleased to have been the first modular housing manufacturer to sign a national labor contract with the United Brotherhood of Carpenters and Joiners of America (AFL-CIO) for both in-plant production and on-site installation. In Avon, the Company, in cooperation with the Brotherhood and the Urban League of Rochester, New York, an affiliate of the National Urban League, conducts JOBS/MA-5 Programs to train the unemployed in manufactured housing skills.

With our Stirling HOMEX HI-RISE System, the Company is entering new growth markets which include commercial lodging through hotels and motels. Recent exposure of our product to this industry at the National Hotel & Motel Exposition at the Coliseum in New York City generated a very enthusiastic reception as well as a large amount of firm interest for product application now and in the near future.

The educational shelter field has also been a new marketing endeavor. Efforts by many states to aggregate their student housing needs and their acceptance of the logic of an industrial solution indicate a very wholesome future consumer. The application and usage by various other users in the apartment field ranges from housing for the elderly to high-rise luxury condominiums.

During recent months your Company has endeavored to make significant improvements in the efficiency of its townhouse module production and has embarked on a major expansion program of manufacturing facilities for the high-rise market. Our efforts at improving townhouse production efficiency principally involve the redesign from a four-module to a three-module townhouse configuration and the introduction of a new interior wall finish which completely eliminates wall seams. The new module configuration and improvement of the wall system required considerable retraining of production personnel and some loss of efficiency during the training period.

The major expansion of our manufacturing facilities involves a 75,000 square foot addition to our Avon plant, scheduled for completion in January, 1971, which will provide us with substantial new high-rise module production capability. The construction of these facilities caused an interruption of 10 production days in our modular assembly plant in August.

Additionally, the Company is incurring significant costs in the training of additional production personnel for this new plant. It is expected that the implementation of these planned programs will reap, in the view of your management, substantial long-range growth and returns for the Company's shareholders.



William G. Stirling

David Stirling, Jr.

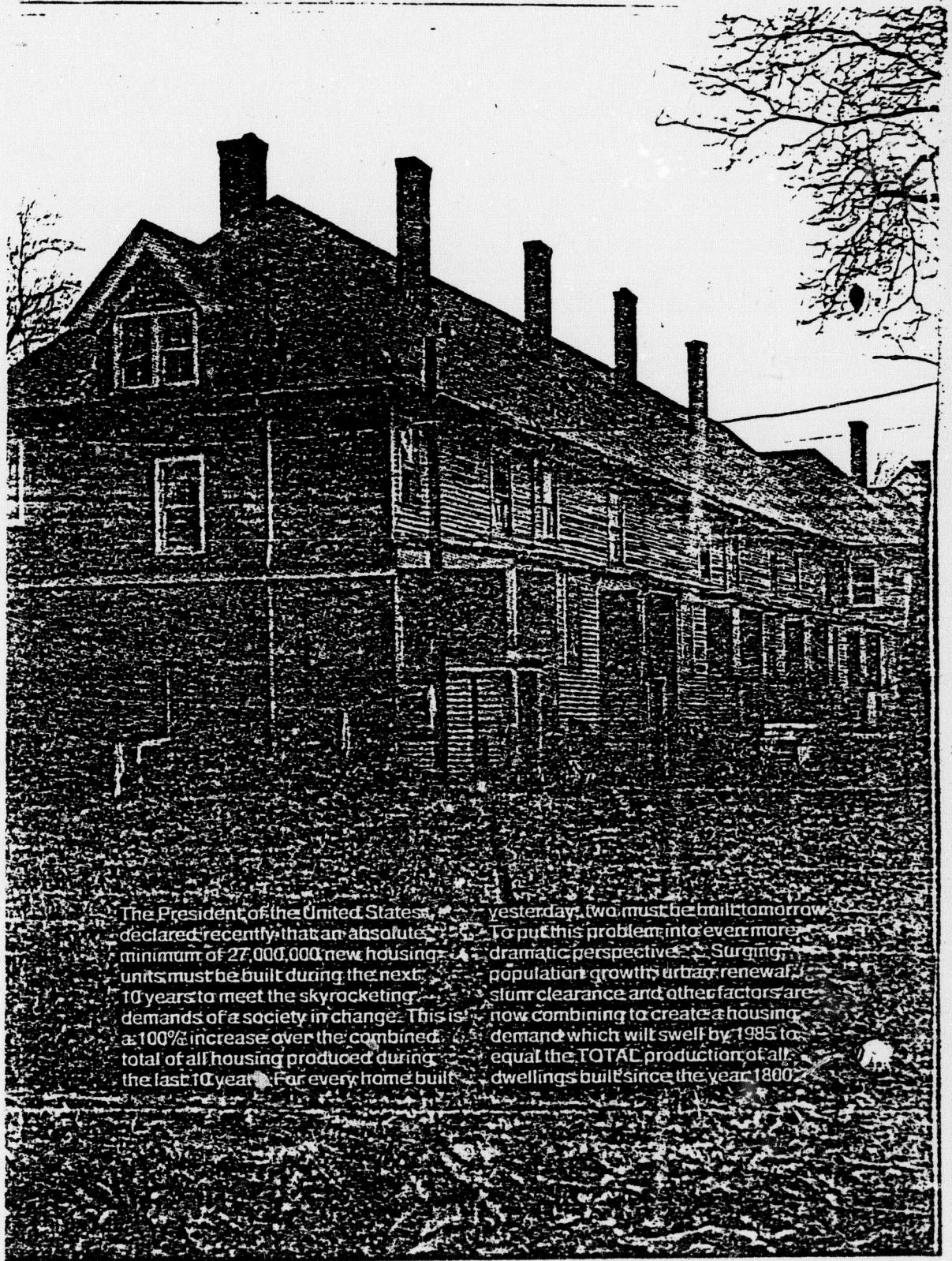
For the full fiscal year of 1971 we expect volume and profits to be significantly ahead of fiscal 1970 results as we add additional manufacturing capacities to meet the increasing demand for quality module shelter products and begin to realize the long-range benefits of these new programs.

People are very important at Stirling Homex. We are grateful to our employees, management, directors and customers for their help in achieving the sound progress made by our Company during the year.

DAVID STIRLING, JR.
Chairman & Chief Executive Officer

WILLIAM G. STIRLING
President & Chief Operating Officer

GOVERNMENT'S EXHIBIT 14



The President of the United States declared recently that an absolute minimum of 27,000,000 new housing units must be built during the next 10 years to meet the skyrocketing demands of a society in change. This is a 100% increase over the combined total of all housing produced during the last 10 years. For every home built

yesterday, two must be built tomorrow. To put this problem into even more dramatic perspectives: Surging population growth, urban renewal, slum clearance and other factors are now combining to create a housing demand which will swell by 1985 to equal the TOTAL production of all dwellings built since the year 1800.

GOVERNMENT'S EXHIBIT 14

Tomorrow's Housing Today

"Man is undoubtedly endowed with the capability of building his dwelling soundly and adequately, but innate inertia and sentimental attachment to tradition are obstructing his progress."

These words by the late Walter Gropius in 1928 found a receptive audience in 1968 when the Stirling Homex Corporation was formed.

American industry has traditionally had the capacity to respond to our nation's needs. To provide within our nation a decent home for all, the industrialization of the shelter process is mandated.

Housing has been built primarily by hand for centuries. As the population grew rapidly in recent decades, outmoded building techniques could not supply the demand for homes.

Pressures generated by decaying urban areas and the expanding population were dangerously increased by an inertia in new construction. Soaring costs, outmoded techniques, restrictive interest rates and inconsistent building codes held housing starts to 1,350,000 in 1969, almost 50% short of our acknowledged national need.

All elements of our society generally acknowledge that the time for transition of the housing production process is now. . . continued inability to meet the need has created a climate of receptivity in our nation. Although the building of a quality house in sections or modules on a production line is not a new idea. . . the volume accomplishment of this process is. . . like most innovative ideas, the industrialization of the shelter product waited on the shelf of history for the right time and the right men to bring it to fruition.

Two such men, David Stirling, Jr. and William Stirling, had for many years engaged in the construction of homes and apartments. Constantly exploring and researching new methods and techniques to overcome both waste and delay so inherent in the industry and constantly aware of the growing housing crisis, they concluded that systems technology was the logical and practical "next step" if our needs were ever going to be translated to habitable, quality dwelling units.

In mid 1968, they formed Stirling Homex Corporation. The "Space Age Building Block" became a reality.

The Stirlings gathered a compact group of talented individuals, privately financed and built a modern plant that embodied new technology, and quickly began production of low-rise modules. The initial problems were met with practical innovation and hard work. Operations were computerized from the beginning, employing sophisticated production techniques throughout the entire process.

The Company's early commitment to high-quality materials and designs which met and exceeded the most demanding building codes helped insure the market

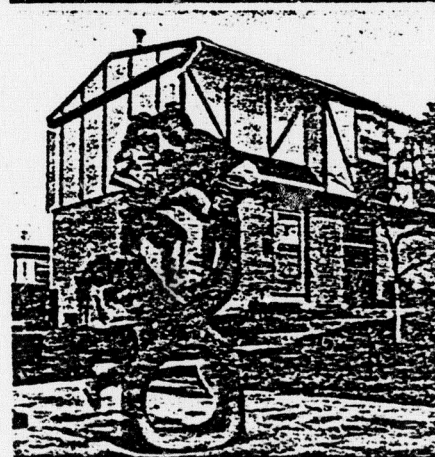
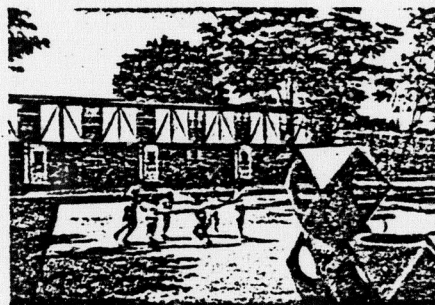
acceptance of its first modular product—attractive two-story townhouses.

Having mastered low-rise technology, Stirling Homex now has moved into another major growth field of the shelter industry. . . steel and concrete modular high-rise construction. The Company has developed innovative new techniques capable of installing and raising a high-rise building at the rate of a floor a day by use of an electronically controlled hydraulic jacking system.

Today, the market for Stirling Homex manufactured modular housing, both low-rise and high-rise, is vast and growing. During the 1970's, our country will require new housing for seventy-five million Americans—more than one-third the total population. This rising need cannot be met by conventional construction alone.

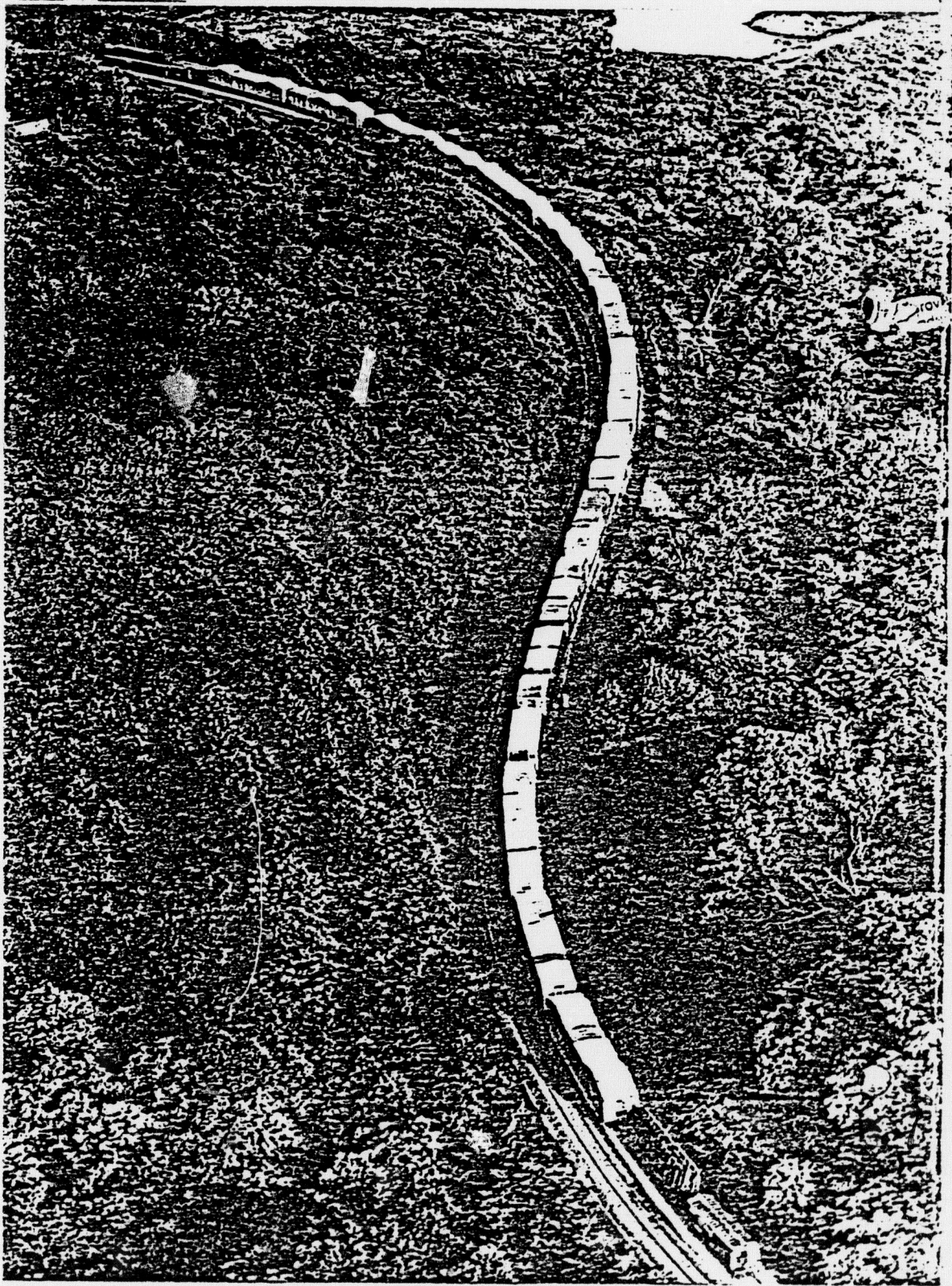
Among legislators, government planners, developers and the men on the front line of the housing crisis—municipal housing administrators—the Stirling Homex modular system is recognized as a practical and fast solution to housing problems. No conventional construction method can match its combination of speed and quality.

The principles of innovation, talented people, speed, quality materials, high building standards, computerization, and hard work have enabled Stirling Homex to develop tomorrow's modular housing technology today.

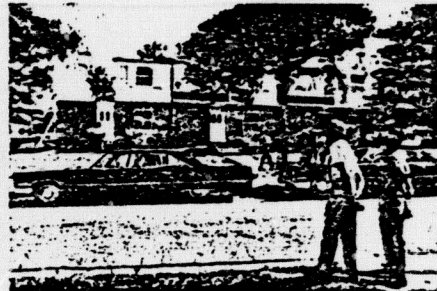


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GOVERNMENT'S EXHIBIT 14



Government's Exhibit 14



Housing by the Trainload

Stirling Homex took the housing industry into a new era of speed and efficiency in July, 1970, and at the same time, made transportation history.

A tornado had destroyed a section of Corinth, Mississippi, located almost 1000 miles from the Stirling Homex plant in Avon, New York. Many families were homeless. Stirling Homex offered its aid to the Tennessee Valley Regional Housing Authority, although it was unheard of to ship full-sized permanent housing that great a distance.

Stirling Homex already had begun developing long-distance shipping techniques. The Company designed and built special rigs for a fleet of 89-foot flatbed railroad cars. Trial shipments were made from Avon, New York to Akron, Ohio. For Corinth, the Company assembled a 2000-foot long train, loaded it with modules and worked out express routing with three railroads.

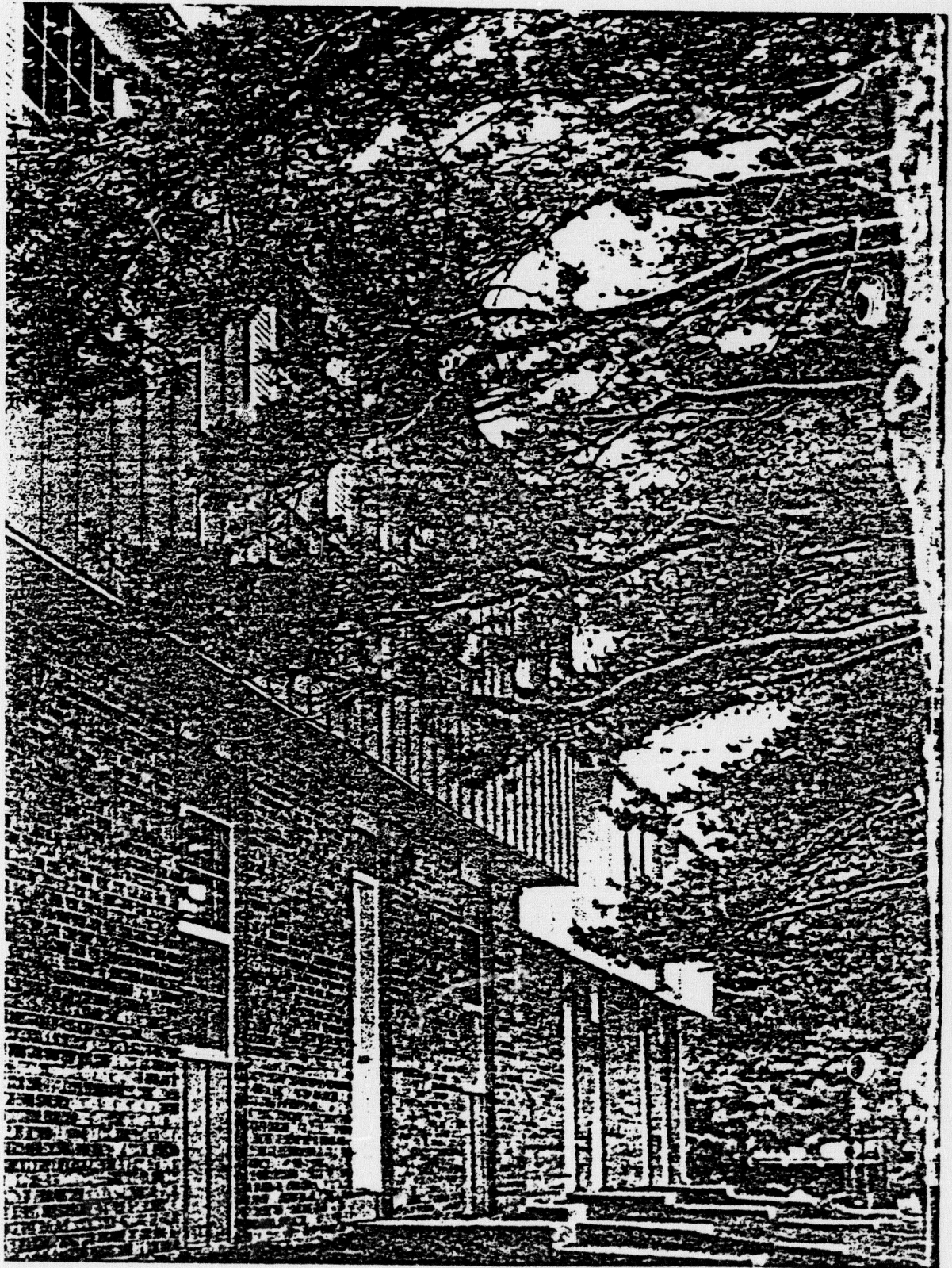
The first unit train—"The Stirling Homex Special"—arrived in Corinth on July 15, 1970 and was greeted by hundreds of cheering people, including Federal and State government, labor and civic leaders. It was followed a few days later by a second train.

A total of 156 modules—33 townhouse homes—were shipped and assembled in days. With this first cross-country unit train shipment of homes, the age of industrialized housing had arrived.

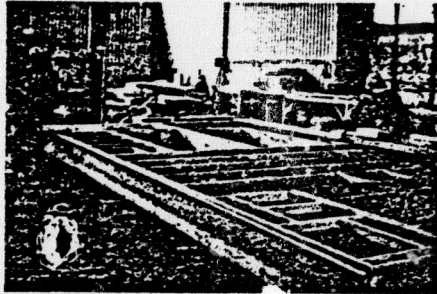
George Romney, Secretary of the Department of Housing and Urban Development, said: "This is one of the most significant train shipments of the century. It demonstrates the capacity of the industrialized housing industry to market in all sections of the country and to respond rapidly to urgent housing needs."

The Stirling Homex full service concept includes land selection and site preparation. Through a subsidiary, the U. S. Shelter Corporation, Stirling Homex can provide to the client all elements of financial programming. A Stirling Homex Corporation field coordinator directs the foundation work and the rapid installation of the modules. The service extends to attractive landscaping, complete with sod, shrubbery, trees and playground.

Government's Exhibit 14



Government's Exhibit 14



Quality "Instant Housing"

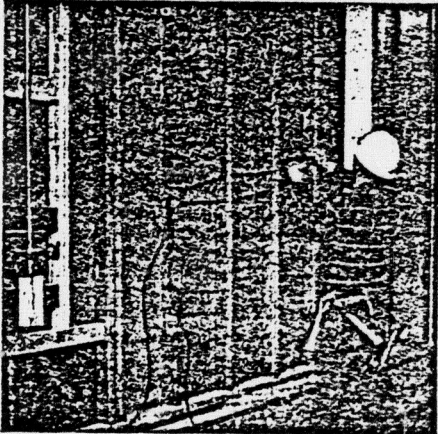
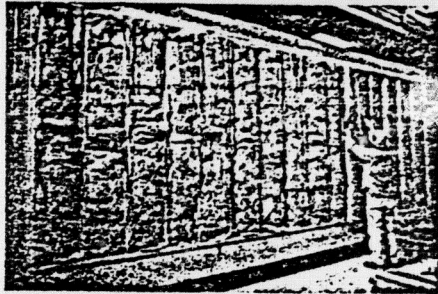
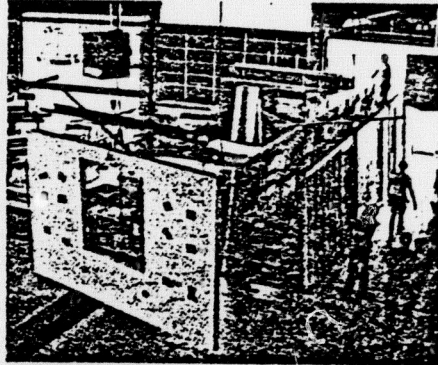
Stirling Homex modular production facilities and technology are the most advanced in the industry. With three years of continuous production, it has gained a substantial lead time on other manufacturers. More than 9000 modules have been built in the Avon plants.

All Stirling Homex plant and installation workers are union members. The Company was the first industrialized housing manufacturer to sign a national labor contract with the United Brotherhood of Carpenters and Joiners AFL-CIO for both in-plant construction and on-site installation. In cooperation with the union, the unemployed are being educated and trained for modular production in modern classrooms by Stirling Homex.

On the production line these trained workers are provided with advanced tools and equipment to manufacture each module with speed and efficiency.

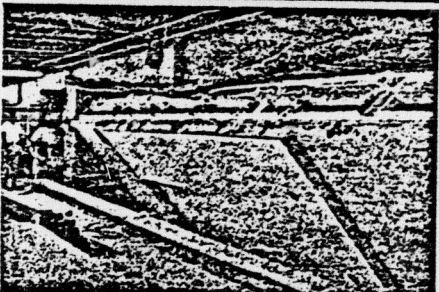
The highest grade of raw materials goes into the production of every unit. Building standards that far surpass those used in conventional construction are observed and high quality is assured as more than 300 quality control inspections are made on each module.

The production line know-how developed and refined while producing over 9000 townhouse modules is directly applicable to high-rise module production as well.



Government's Exhibit 14

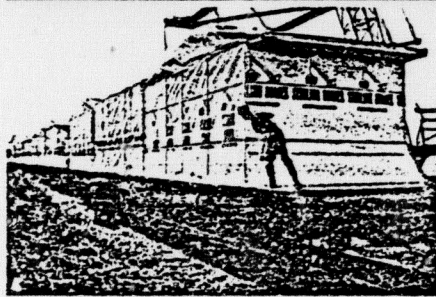
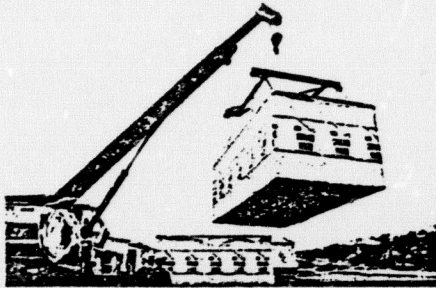
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Employing sophisticated tooling and fixtures, the townhouse or high-rise module proceeds through sequential work stations to emerge as a finished product ready for weatherproof wrapping and transportation to a development site.

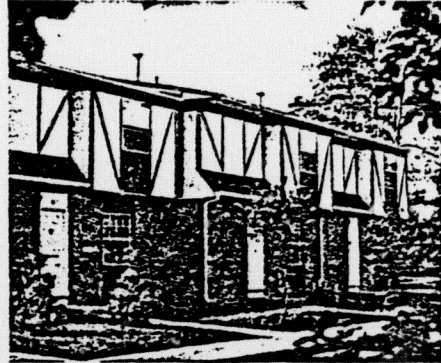
A fleet of special truck trailers carry modules up to 400 miles. For longer trips, up to 1000 or more miles, the modules travel by unit train.

Government's Exhibit 14



An excellent example of the speed and efficiency of the Company's installation program and the resultant tenant-client satisfaction is the ongoing 1500-unit project of the Akron Metropolitan Housing Authority.

In Akron and elsewhere, Stirling Homex has been confronted with a full range of product applications including entire new developments, in-fill, as well as a relocation program involving the removal of substandard housing and the replacement of same within a limited space framework. Minimizing relocation and other related problems, the substandard housing is demolished and the ground cleared, within days. New townhouses are installed and delighted families are moved into their new homes.

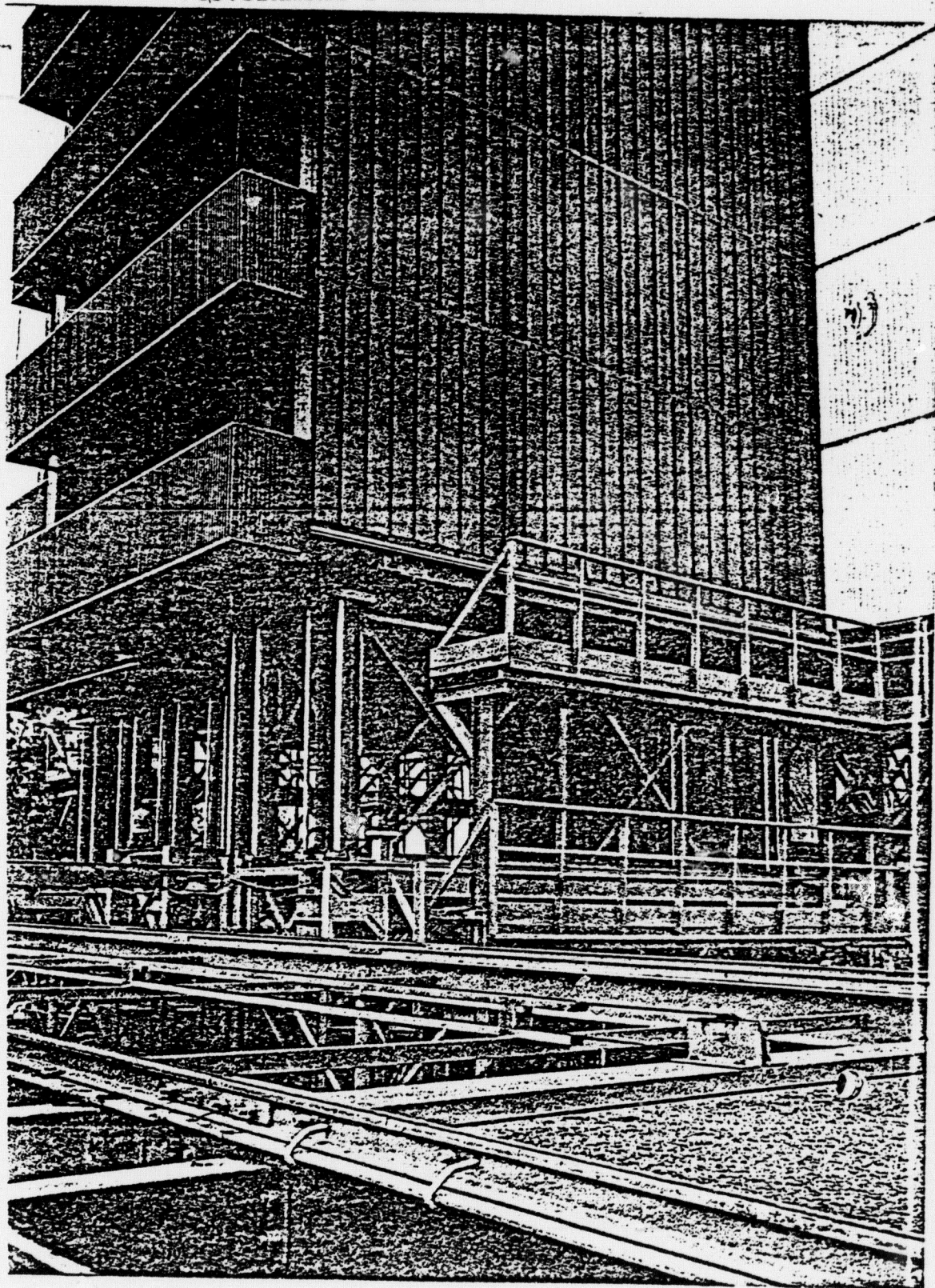


For tenants, Stirling Homex housing means an attractive environment and the privacy of single family living in multiple-family townhouses.

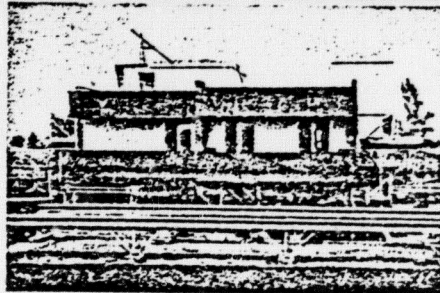
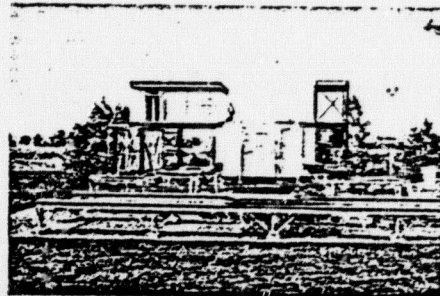
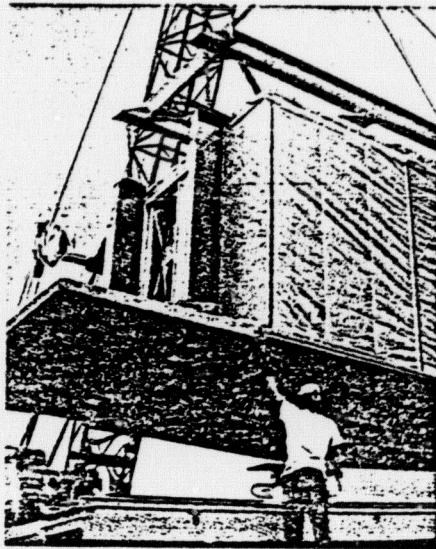
Recently, a new tenant said: "We existed there; we live here!"

Stirling Homex townhouse projects are presently in development in the states of Maine, Massachusetts, New York, Pennsylvania, Ohio and Mississippi. Other projects are pending in six additional states.

Government's Exhibit 14



Government's Exhibit 14



Revolutionary New High Rise

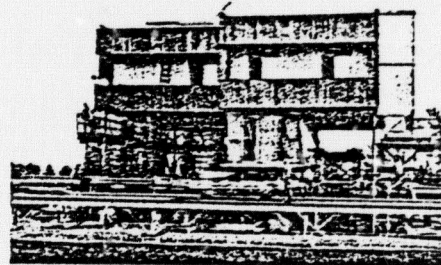
The revolutionary Stirling HOMEX HI-RISE System was perfected totally from in-house expertise in engineering, architecture, electronics and related technical skills. The System's advanced technology has U. S. and foreign patents pending.

Apartment houses, hotels, motels, college housing, and homes for the aged can be completed and ready for occupancy in weeks instead of years. The saving in time means that financing costs are reduced, rental income begins earlier, and relocation problems are minimized.

The Stirling HOMEX HI-RISE System allows complete architectural freedom in exterior design. Suitable materials of any configuration can be employed as exterior cladding. Balconies can be individual, continuous or completely eliminated. This freedom of architectural expression allows Stirling Homex hi-rise buildings to be grouped in a variety of usages: hotel, apartment, condominium without the monotony of most systems now in existence.

Modules for the high-rise system are constructed of steel, lightweight concrete, and other fire-retardant materials. Vertical building loads are transmitted directly to the foundation by supporting steel columns which are an integral part of the modules. The interior walls are non-load bearing and can be placed wherever desired, creating almost limitless design flexibility.

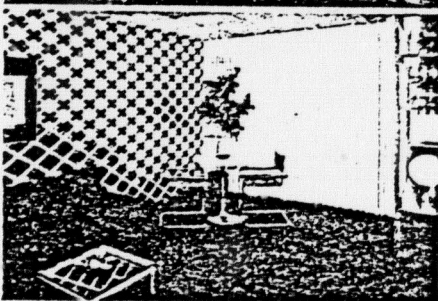
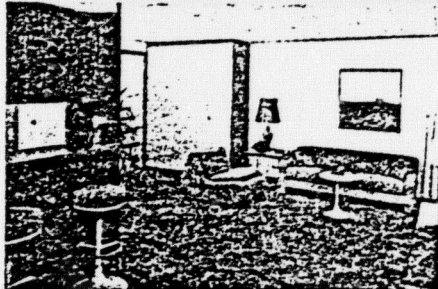
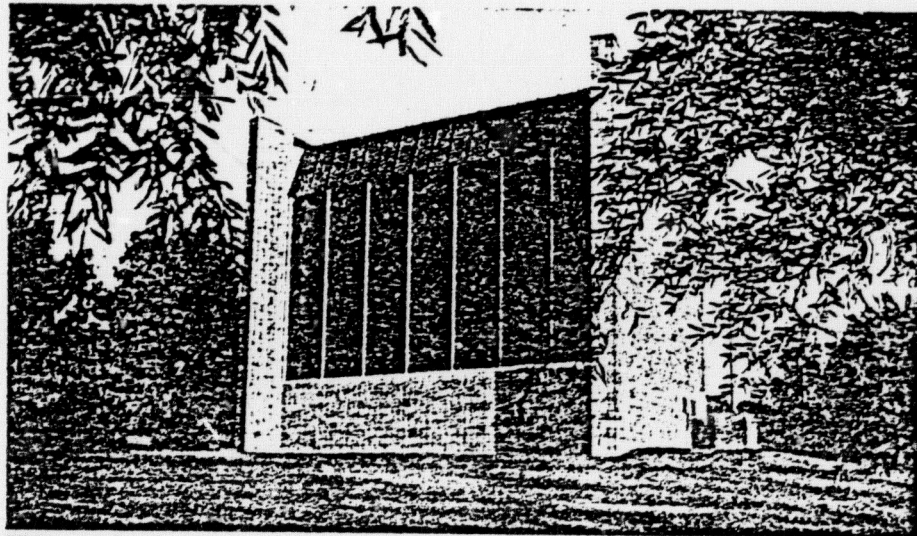
Arrival at the site by truck, rail, or water, a precision rail system feeds the modules to a



foundation in which powerful hydraulic jacks and supporting steel structures are in alternate bays. Modules are placed on the foundation and structural connections made. The jacks raise the entire floor 10 feet, and new modules are inserted in the supporting bays below. Then the jacks are lowered and the other bays are filled to complete the next floor. This floor is then elevated and the cycle repeated for up to 20 floors. Throughout the installation process, a fail-safe electric screw jack insures the complete safety of the structure at all times.

Government's Exhibit 14

14



Because the roof is installed first, work can proceed in any weather around the clock. Modules are substantially complete, with fixtures and utilities, when they leave the plant.

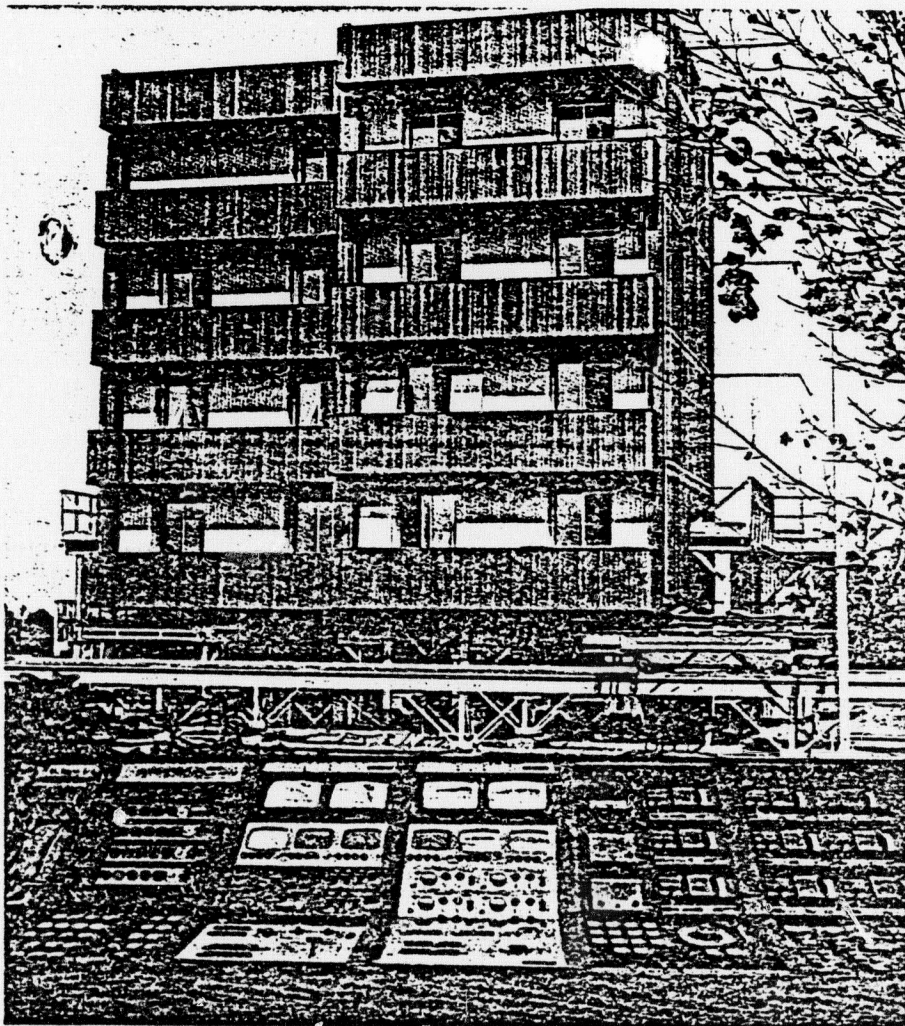
Concurrent with the module installation process, final field connections of structure and utilities are achieved. Finish closure of module joints and related operations are completed.

Permanent steel supporting beams replace the jacks when the high-rise building is completed.

The system is recognized by the Department of Housing and Urban Development which selected it as a winner in its "Operation Breakthrough" Program. This Program has as its goal the development of new technology to meet the supply vacuum presently existing in the shelter industry. Through Breakthrough, HUD is promoting the best in technologically advanced housing systems and stimulating new production capacity in the industry. An FHA Structural Bulletin has already been issued on the steel and concrete module of the Stirling HOMEX HI-RISE System.

In Avon, a four-story Training and Observation Facility (TOF) is now in operation. The top floor is laid out with attractive hotel, motel suites and rooms.

Government's Exhibit 14



The third floor is designed as college housing. The second and first floors are outfitted with efficiency and one-bedroom apartments. This building fully demonstrates the capacity of the system to meet all configurative, as well as structural, requirements.

The TOF complex will be employed in the ongoing production development program, as well as the training center, for installation personnel who are assigned to Stirling HOMEX HI-RISE sites. It also is used for prospective customers and interested government and labor officials to see the system in actual operation.

Government's Exhibit 14

16

A Total Service Team

People and teamwork are important to Stirling Homex. Talented personnel have been assembled from all areas of the United States, as well as other countries. Their combined expertise in engineering, architecture, community planning, production, construction, finance, law, marketing, systems control and other fields provides in-depth strength in every department. The Company presents a total service to its customers and takes responsibility for the entire shelter package.

Through continued emphasis on its human resources and research and development programs, the Stirling Homex Corporation anticipates continuance of industry leadership.



RICHARD E. KARKOW
Exec. Vice Pres. & Treasurer
EMIL A. BARTZ
Vice Pres. & Secretary
EDWIN J. SCHULZ
Vice Pres. & Controller



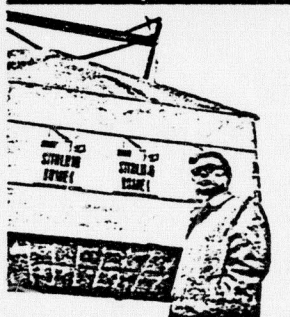
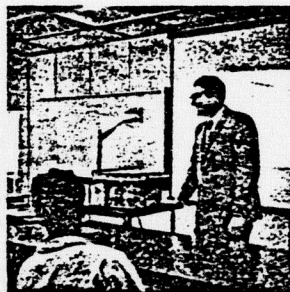
HAROLD M. YANOWITCH (Right)
Exec. Vice Pres. & Gen. Counsel
REUBEN K. DAVIS
Asst. Vice Pres. & Assoc. Gen. Counsel
ARTHUR E. ROSFELD
Vice Pres. of Program Planning
FRANK CSAPO (Left)
Vice Pres. of Mfg.
JOHN E. GREEN
Asst. Vice Pres. of Mfg.
CHARLES MARSHALL (Left)
Pres. U.S. Shelter Corp.
CHARLES B. DAVIS
Vice Pres. U.S. Shelter Corp.

Government's Exhibit 14

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CARL L. WREN
Vice Pres. of Market Research
NEWMAN J. EVANS
Director of Sales Engineering
HARRY SINDEN
Asst. Director of Sales Engineering
CHAF. EASTWOOD
Direc. High-Rise Systems



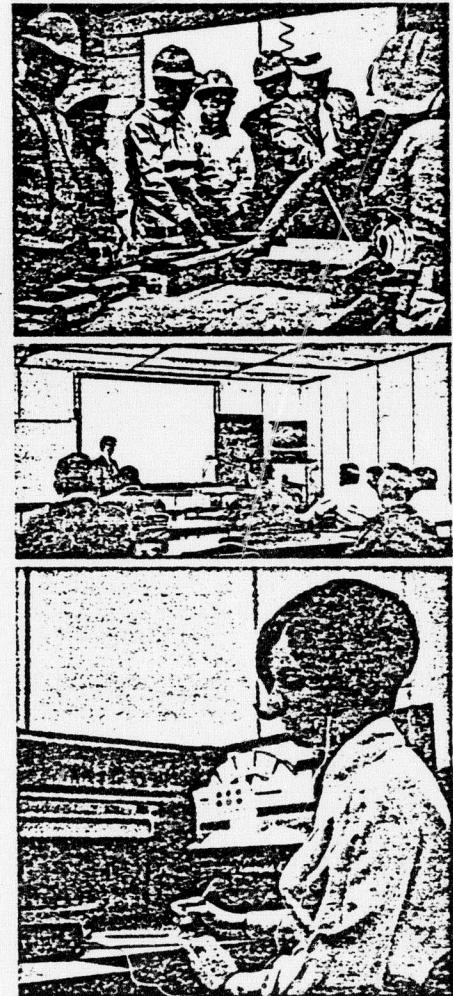
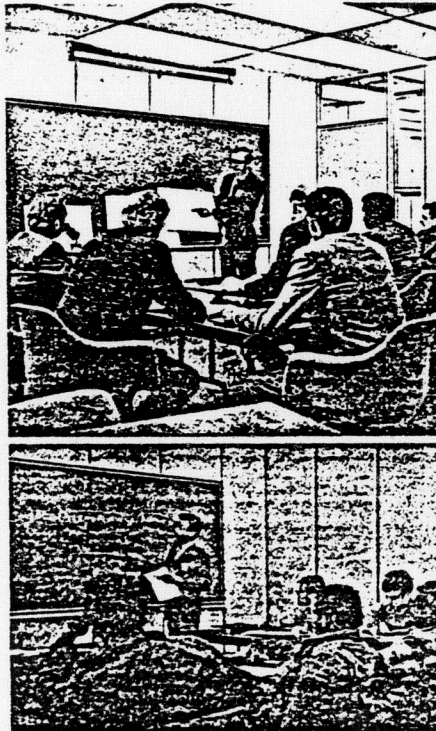
VICTOR G. PAPPAS
Vice Pres. of Personnel
GARY L. HAMMONS
Vice Pres. of Real Estate
& Installation Div.
RICHARD H. HORTON
Director of Technical Services



HERMAN D. HILLMAN
Vice Pres. & Assoc. Gen. Counsel
JOHN P. BLAKE
Director Material Management—Mfg.
B. GORDON SHARUN
Director of Purchasing

Government's Exhibit 14

18



New Industry—New Training

Modular housing, a new industry with unique techniques and technology, requires an equally new approach in the training of its personnel. Stirling Homex has built modern classrooms containing the most progressive teaching aids at Avon, New York, where its management, production and clerical personnel learn new skills and technologies.

A curriculum encompassing more than 60 courses, ranging from basic elementary-level education to speed reading and human relations, are given under the jurisdiction of the Personnel Department. This educational training center provides complete and comprehensive programs for employees in the development of basic skills. In addition to a complete phased management training sequence, vestibule programs as well as complete factory orientation classes, are a daily product of the instructional staff. The school also operates a U. S. Department of Labor MA5 Program for the training of minimally and marginally skilled persons.

D

Government's Exhibit 14

Financial Summary

Consolidated Statement of Income

	Year Ended	
	July 31 1970	July 31 1969*
Sales:		
Sales—Trade (Notes 2 and 3)	\$22,094,127	\$ 4,248,713
Sales to affiliated companies (Note 3)	459,941	6,140,338
Total sales	22,554,068	10,389,051
Cost of Sales (Including Depreciation—1970, \$190,348; 1969, \$67,985)	15,159,715	7,213,939
Gross Profit	7,394,353	3,175,112
Administrative and Selling Expenses	2,390,604	701,157
Interest Expenses—Net	648,181	74,762
Total expenses	3,038,785	775,919
Income before Income Taxes	4,355,568	2,399,193
Provision for Income Taxes (Note 9):		
Current portion	1,965,982	843,212
Deferred portion	354,397	473,500
Total	2,320,379	1,316,712
Net Income (Note 2)	\$ 2,035,189	\$ 1,082,481
Average Number of Shares Outstanding	8,649,483	8,025,432
Net Income per Share of Common Stock (Note 11)	\$.24	\$.13

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.

*Restated for comparative purposes.

Government's Exhibit 14

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Consolidated Balance Sheet

ASSETS	July 31 1970	July 31 1969*
Current Assets:		
Cash	\$ 2,778,077	\$1,420,160
Receivables and unbilled amounts on contracts (Notes 2, 3 and 4)	15,486,119	3,199,488
Inventories:		
Salable merchandise, work in process and raw materials, at cost (Note 5)	2,167,603	1,072,299
Land held for development, at cost (Notes 5 and 8)	1,583,621	1,377,710
	3,751,224	2,515,009
Prepaid expenses	124,765	89,792
Total current assets	22,140,185	7,224,449
Long-Term Receivables (Note 4)	541,124	584,546
Property, Plant and Equipment, at Cost (Notes 6 and 8)	5,476,666	1,105,847
Less: Accumulated depreciation and amortization	230,921	62,382
	5,245,745	1,043,465
Deferred Charges (Note 7)	944,109	342,304
Total	\$28,871,163	\$9,194,764

The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.
 *Restated for comparative purposes.

Government's Exhibit 14

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LIABILITIES AND STOCKHOLDERS' EQUITY	July 31 1970	July 31 1969*
Current Liabilities:		
Notes payable and current portion of long-term debt (Note 8)	\$12,033,036	\$1,311,336
Accounts payable and accrued expenses	2,713,653	558,018
Income taxes payable	1,387,338	382,991
Total current liabilities	16,134,027	2,252,345
Long-Term Debt (Note 8)	496,489	3,423,952
Deferred Income Tax (Note 9)	587,265	402,489
Commitments and Contingent Liabilities (Note 10)	—	—
Total liabilities	17,217,781	6,078,786
Stockholders' Equity:		
Preferred stock, par value \$1 per share, authorized 500,000 shares, issued and outstanding—none (Note 11)	—	—
Common stock, par value \$.01 per share, authorized 15,000,000 shares, issued and outstanding—8,897,400 shares—July 1970; 8,368,400 shares—July 1969 (Note 11)	88,974	83,684
Paid-in surplus	8,446,738	1,949,813
Retained Earnings:		
Balance—beginning of year	1,082,481	—
Net income	2,035,189	1,082,481
Balance—end of year	3,117,670	1,082,481
Total stockholders' equity	11,653,382	3,115,978
Total	\$28,871,163	\$9,194,764

Consolidated Statement of Paid-in Surplus

	July 31 1970	July 31 1969*
Balance, Beginning of Year	\$1,949,813	\$ —
Additions:		
Excess of issue price over par value of 400,000 shares of common stock issued in public offering (less net expenses of \$118,285)	5,981,715	—
Excess of issue price over par value of common stock issued in private sales (less applicable expenses)	515,210	1,948,186
Excess of book value of assets acquired over par value of shares issued in an exchange transaction effective August 1, 1968	—	101,627
Balance, End of Year	\$8,446,738	\$1,949,813

Government's Exhibit 14

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Consolidated Statement of Source and Application of Funds

	Year Ended	
	July 31 1970	July 31 1969
Source of Funds:		
Consolidated net income	\$2,035,189	\$1,082,481
Charges to income not requiring Funds:		
Depreciation provision	220,287	1,763
Amortization of deferred charges	133,228	34,002
Deferred income taxes	184,776	402,489
Funds derived from operations	2,573,480	1,580,735
Net proceeds from public offering of 400,000 shares of common stock	5,985,715	—
Net proceeds from private sale of common stock (1970, 129,000 shares; 1969, 1,968,400 shares)	516,500	1,931,870
Long-term borrowings	124,677	2,549,534
Decrease in long-term receivables	43,421	—
Total source of funds	9,243,793	6,062,139
Application of Funds:		
Additions to property, plant and equipment	4,422,506	704,610
Additions to deferred charges	735,093	376,306
Reduction in long-term debt	3,052,140	164,700
Increase in non-current portion of long-term receivables	—	584,546
Total application of funds	9,209,739	1,830,162
Increase in Working Capital	1,034,054	4,231,977
Working Capital—Beginning of Year	4,972,104	740,127
Working Capital—End of Year	\$6,006,158	\$4,972,104
The accompanying Notes to Consolidated Financial Statements are an integral part of this statement.		

To the Board of Directors and Shareholders
Stirling Homex Corporation

We have examined the consolidated balance sheet of Stirling Homex Corporation and Subsidiaries as of July 31, 1970 and the related consolidated statements of paid-in surplus, income and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Stirling Homex Corporation and Subsidiaries at July 31, 1970 and the results of their operations and source and application of their funds for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y.
September 21, 1970

Harris, Kerr, Forster & Company
Harris, Kerr, Forster & Company

Government's Exhibit 14

Notes to Consolidated Financial Statements

23

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of Shring Homex Corporation (the Company) and its five wholly-owned subsidiaries. All material intercompany items and transactions were eliminated.

2. CHANGE IN ACCOUNTING PRINCIPLE:

During the current year, the Company changed its method of recording income on the site development and installation portion of its sales contracts from the completed contract method to the percentage of completion method. As a result of this change to an acceptable alternative accounting principle, trade sales have been increased by \$538,007 and the effect on net income is nil. The consolidated financial statements for the year ended July 31, 1969 have been restated to give retroactive effect for this change. Accordingly, trade sales and net income for the year ended July 31, 1969 have been increased by \$298,987 and \$44,213, respectively, over the amounts previously reported.

3. RECEIVABLES AND UNBILLED AMOUNTS ON CONTRACTS:

Receivables and unbilled amounts on contracts at July 31 consist of the following:

	1970	1969
Accounts receivable	\$10,559,145	\$2,818,588
Unbilled amounts for modules under contracts	3,439,150	—
Unbilled amounts for site work and other charges under contracts	1,187,220	91,496
Notes receivable—due on demand	35,960	—
Notes and accounts receivable from affiliated companies	25,065	358,316
Current portion of long-term receivables	37,500	131,088
Receivables from officers and employees	103,665	—
Other	97,414	—
Total	\$15,486,119	\$3,199,488

The Company enters into various modular housing sale contracts with local housing authorities. These contracts contain an allocation of the sales price as between modular units, site development and installation, land and other reimbursables. The terms of certain sales contracts ("Turnkey") provide for payment and transfer of title upon completion and receipt of all approvals necessary for occupancy.

The Company records sale of modular units after they have been manufactured and assigned to specific contracts.

The notes and accounts receivable from affiliated companies represent sales to companies in which certain officers and directors of the Company or members of their immediate family have an equity interest.

The Company's sales to local housing authorities are for Federally financed housing projects which qualify for financial assistance from the Department of Housing and Urban Development. Due to the nature of these sales, no provision for doubtful accounts is considered necessary.

4. LONG-TERM RECEIVABLES:

	Current Portion	Long-Term Portion
Long-term receivables at July 31, 1970 consist of:		
Notes Receivable:		
Non-interest bearing demand note	\$20,000	\$ —
Mortgages Receivable (See (a) Below):		
Mortgage due June 1, 1974—amortization payments of \$2,500 due quarterly with interest at the prime commercial rate in effect:	17,500	239,124
Mortgage due June 30, 1975—amortization payments of \$25,000 due June 30, 1973 and June 30, 1974 and the balance due June 30, 1975. Interest payable annually at the prime commercial rate in effect on the interest payment date	—	302,000
Total	\$37,500	\$541,124

(a) The mortgage notes are secured by mortgages on property located in the Town of Clay, New York.

5. INVENTORIES:

(a) The amount of inventories consisted of the following:

	1970	1969
Salable Merchandise	\$1,064,408	\$ 653,872
Work in Process	139,531	12,000
Raw Materials	963,664	471,427
Total	\$2,167,603	\$1,137,299

(b) Carrying charges (real estate taxes, interest, etc.) were added to the initial cost of the land held for development. The Company is negotiating for the development and sale of this land.

6. PROPERTY, PLANT AND EQUIPMENT:

The property, plant and equipment at July 31 comprised:

	1970	1969
Land	\$ 456,870	\$ 54,072
Land Improvements	545,197	124,038
Buildings	1,702,924	444,498
Machinery and Loose Tools	497,771	65,211
Delivery and Construction Equipment	573,744	322,909
Furniture, Fixtures and Office Equipment	500,951	85,219
Leasehold Improvements	27,998	—
Construction in Progress	1,171,211	—
	\$ 4,768,666	\$ 1,105,847
Less: Accumulated depreciation and amortization	230,921	62,382
Total	\$5,245,745	\$1,043,465

Depreciation of buildings is provided for on a straight-line method over estimated useful lives of forty-five years. Land improvements, furniture and equipment, machinery and loose tools are being depreciated on a straight-line method over estimated useful lives ranging from one to twenty years. Leasehold improvements are being amortized over the life of the lease.

7. DEFERRED CHARGES:

The unamortized balances of deferred charges at July 31 consist of:

	Amortization Period	1970	1969
Research and Development Expenses	60 Months	\$ 84,496	\$ 65,921
Plant Start-up Expenses	36 Months	63,197	67,878
Project Start-up Expenses	Life of Project (Not more than 24 months)	303,198	102,980
Computer Systems Development	60 Months	136,127	65,585
Training and Professional Development	36 Months	148,636	—
Property Acquisition (See Below)		118,778	2,980
Patents Pending	Legal Life	79,693	1,285
Organizational Costs and Other	Various	9,984	35,697
Total		\$944,109	\$342,304

Expenditures in connection with property acquisition will be added to the cost thereof as related property is acquired or written off if a planned property site is abandoned before acquisition.

8. NOTES PAYABLE AND LONG-TERM DEBT:

Long-term debt at July 31, 1970 consist of:

	Current Portion	Long-Term Portion
Bank Loans Payable:		
Unsecured notes, maturing from August 10, 1970 to October 13, 1970 bearing interest at 8% (Notes maturing prior to September 21, 1970 were either refinanced or paid)	\$ 8,000,000	\$ —

Government's Exhibit 14

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Notes to Consolidated Financial Statements

	Current Portion	Long-Term Portion
Term loan, maturing March 15, 1971 bearing interest at 8 1/2 % (See (a) below)	3,700,000	—
Total bank loans payable	11,700,000	—
Mortgages Payable:		
Mortgages maturing from October 16, 1970 through December 3, 1975 and bearing interest at rates ranging from 4 1/4 % to 6 %. These mortgages encumber land and buildings carried at the aggregate amount of \$1,998,992	281,439	443,176
Installment Contracts Payable (See (b) Below):		
Installment contracts maturing from September 13, 1970 through May 31, 1973	42,824	29,219
Long-Term Lease Purchases (See (b) Below):		
Lease purchase agreements maturing from May 1, 1971 through December 15, 1972	28,973	24,094
Total	\$12,033,036	\$496,489

(a) The term loan agreement includes, among other things, restrictive covenants relating on a consolidated basis to indebtedness, equity and the payment of cash dividends. On September 21, 1970 this loan was paid from short-term borrowings, resulting in the cancellation of these restrictions.

(b) Equipment with a gross book value of \$223,099 was encumbered under conditional sales contracts of \$124,910.

9. INCOME TAXES:

The provision for income taxes for the year ended July 31, 1970 consists of the following:

	Current Portion	Deferred Portion	Total
Federal Income Taxes	\$1,757,513	\$317,386	\$2,074,899
State and City Income Taxes	208,469	37,011	245,480
Total	\$1,965,982	\$354,397	\$2,320,379

Deferred income taxes in the amount of \$587,265 at July 31, 1970 are attributable to timing differences in recognition of income and expenses from installments sales, construction income, carrying charges (real estate taxes and mortgage interest), deferred charges and depreciation.

10. CONTINGENT LIABILITIES:

An action has been brought to enjoin the use of the word "Homex" by the Company. In the opinion of legal counsel for the Company this action is without merit and can be successfully defended.

On January 21, 1970, the State of New York asserted a proposed deficiency in sales and use taxes against the Company in the aggregate net amount of \$147,233 excluding penalties and interest. A protest to this proposed deficiency was filed on May 21, 1970, and in the opinion of legal counsel there appears to be a valid defense against the claim.

The consolidated Federal income tax returns for the years ended July 31, 1969 and 1970 are subject to the usual review by the Internal Revenue Service.

Two wholly-owned subsidiaries remain contingently liable as makers on first mortgages, aggregating approximately \$65,000, encumbering properties which were sold during the prior year.

11. CAPITAL STOCK:

On November 6, 1969, the stockholders approved an increase in the authorized number of shares of \$.01 par value common stock from 2,500,000 to 15,000,000, a four-for-one split on the then outstanding common stock, and the authorization of 500,000 shares of \$1.00 par value preferred stock. As of July 31, 1970, no shares of preferred stock have been issued. The consolidated financial statements for the year ended July 31, 1969 have been restated to reflect the effect of the aforementioned authorizations.

The transactions in common stock for the year ended July 31, 1970 are as follows:

	Shares Issued and Outstanding	Par Value
Balance, July 31, 1969, as Previously Reported	2,092,100	\$20,921
Add:		
Retroactive effect of four-for-one stock split	6,276,300	62,763
Balance, July 31, 1969, as Restated	8,368,400	83,684
Add:		
Stock sold at \$1.00 per share in private sale (after giving effect to stock split)— excess of sales price over par value credited to paid-in surplus	104,000	1,040
Sale of 400,000 shares in public offering at \$16.50 per share (excess of sales price over par value credited to paid-in surplus)	400,000	4,000
Sale of 25,000 shares at \$16.50 per share (excess of sales price over par value credited to paid-in surplus)	25,000	250
Balance, July 31, 1970	8,897,400	\$88,974

The Company has a qualified stock option in effect whereby options to purchase 400,000 shares of common stock may be granted to officers and key employees at not less than the fair market value on the date of grant.

Options are exercisable over a period of not more than five years from date of grant. As of July 31, 1970, 399,300 options were granted at prices ranging from \$3.00 to \$16.50 per share, none of which was exercised at July 31, 1970.

The Company will make no charge to income with respect to options granted and, when options are exercised, the excess of the option price over the par value of common stock issued will be credited to paid-in surplus.

Shares issuable under employee stock options have been excluded from the weighted average of outstanding common stock in computing earnings per share since their inclusion would not result in any material dilution.

Government's Exhibit 14

Board of Directors

David Stirling, Jr.
Chairman and Chief Executive Officer
William G. Stirling
President and Chief Operating Officer
Harold M. Yanowitch
Executive Vice President and General Counsel
Richard E. Karkow
Executive Vice President and Treasurer
David Stirling, Sr.
Vice President
Harper Sibley, Jr.
Chairman of Sibley Management Associates
Theodore W. Wheel
Partner in the law firm of Battle, Fowler,
Stokes & Wheel, New York City
John W. Castellucci
President of the National Association of
Blue Shield Plans, Chicago, Illinois

Officers

David Stirling, Jr.
Chairman of the Board and Chief Executive Officer
William G. Stirling
President and Chief Operating Officer
Harold M. Yanowitch
Executive Vice President and General Counsel
Richard E. Karkow
Executive Vice President and Treasurer
E. A. Bartz
Vice President and Secretary
Frank Csaco
Vice President of Manufacturing
Gary L. Hammons
Vice President of Real Estate
Herman D. Hillman
Vice President and Associate General Counsel
New York Office
Victor G. Pappas
Vice President of Personnel
Arthur E. Rosfeld
Vice President of Program Planning,
Washington Office
Edwin J. Schulz
Vice President and Controller
David Stirling, Sr.
Vice President
Carl L. Wren
Vice President of Market Research

Main Office:

Stirling Homex Corporation
1150 East River Road
Avon, New York 14414

Branch Offices:

2011 Eye Street, N. W.
Washington, D. C. 20006
437 Madison Avenue
New York, New York 10022
207 Montgomery Street
Montgomery, Alabama 36104
2650 West Market Street
Akron, Ohio 44313

Auditors:

Harris, Kerr, Forster & Company
420 Lexington Avenue
New York, New York 10017

E 233

Government's Exhibit 14

Stirling Homex Corporation 
Space Age Building Blocks

Government's Exhibit 14

STIRLING HOMEX CORPORATION

Notice of Annual Meeting of Shareholders
To Be Held on February 5, 1971

Orig. 0-5250-2
42675

REC'D SEC.

JAN 1 11971

TO THE SHAREHOLDERS:

The Annual Meeting of Shareholders of Stirling Homex Corporation will be held in the Auditorium of the Marine Midland Bank—Rochester, One Marine Midland Plaza, Rochester, New York, on February 5, 1971, at 10 A.M. for the following purposes:

- (1) To elect Directors;
- (2) To consider and vote upon a proposal to amend the Company's qualified stock option plan so as to increase by 500,000 shares the number of shares of the Company's Common Stock issuable thereunder; and
- (3) To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

The Board of Directors has fixed the close of business on December 24, 1970 as the record date for the determination of shareholders entitled to notice of and to vote at the meeting.

By Order of the Board of Directors

E. A. BARTZ,
Secretary

Avon, New York
January 7, 1971

YOUR VOTE IS IMPORTANT

Please complete and promptly return your proxy in the envelope provided. You are also cordially invited to attend the meeting in person. Please indicate on the enclosed post card whether you will attend and return it to the Company.

Government's Exhibit 14

PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
OF
STIRLING HOMEX CORPORATION

42676

This proxy statement is furnished in connection with the solicitation of proxies by the management of Stirling Homex Corporation to be voted at the Annual Meeting of Shareholders of Stirling Homex to be held on February 5, 1971 in the Auditorium of the Marine Midland Bank—Rochester, One Marine Midland Plaza, Rochester, New York, for the purposes set forth in the foregoing Notice of Annual Meeting. The close of business on December 24, 1970 has been fixed as the record date for the determination of the shareholders entitled to notice of, and to vote at, the meeting. On such date there were outstanding and entitled to vote 8,897,400 shares of Common Stock. Each share of Common Stock is entitled to one vote at the meeting.

1. Election of Directors

Eight Directors are proposed to be elected to hold office until the next Annual Meeting of Shareholders, and until their successors have been elected and shall have qualified. Management proposes to nominate the persons listed below as Directors for the ensuing year. It is intended that the persons named in the proxy will vote for the election of these persons unless the shareholder giving the proxy withholds such authority. In the event that any of the eight nominees should not continue to be available for election, discretionary authority will be exercised to vote for a substitute.

Management believes that all of the nominees will be available and able to serve as Directors. Information about the nominees is set forth below:

Nominee	Director Since	Principal Occupation	Shares of the Corporation Beneficially Owned As of December 1, 1970
*David Stirling, Jr.	1968	Chairman of the Board of Directors and Chief Executive Officer	1,933,552(1)
*William G. Stirling	1968	President and Chief Operating Officer	1,943,648(2)
*Harold M. Yanowitch	1969	Executive Vice President and General Counsel	109,700
Richard E. Karkow	1969	Executive Vice President and Treasurer	100,000
David Stirling, Sr.	1968	Vice President	428,600
Theodore W. Kheel	1969	Member of New York City law firm of Bartle, Fowler, Stokes and Kheel	184,600(3)
John W. Castellucci	1969	President of the National Association of Blue Shield Plans	4,000
C. W. Marshall	—	President of U. S. Shelter Corporation, a subsidiary of the Company	20,000

* Member of the Executive Committee.

(1) Includes 80,000 shares owned beneficially by wife, children, and trust for children.

(2) Includes 100,000 shares owned beneficially by wife, children, and trust for children.

(3) Includes 60,000 shares owned beneficially by children.

In addition to David Stirling, Jr. and William G. Stirling, who own 21.7% and 21.8%, respectively, of the outstanding Common Stock of the Company, Harper Sibley, Jr. owns beneficially 890,623 shares or 10.01% of the outstanding Common Stock. To the knowledge of the Company no other person owns beneficially or of record more than 10% of the outstanding Common Stock.

Government's Exhibit 14

Prior to the formation of the Company in July 1968, David Stirling, Jr., William G. Stirling, and David Stirling, Sr., were officers of Stirling Bros., Inc., a multi-family housing development and operating company, since its organization in 1962. Mr. Yanowitch, before he joined the Company in 1969, was a practicing attorney for more than twenty years. Mr. Karkow joined the Company in 1969 after serving as Treasurer of The Kroger Co. since 1963. Mr. Kheel has been a lawyer, mediator and arbitrator of labor disputes for approximately thirty years. Mr. Castellucci has been an executive with the National Association of Blue Shield Plans since 1964. Mr. Marshall, for more than twenty years prior to joining the Company in 1970, was a senior officer of Central Trust Company, Rochester, New York.

Remuneration of Management

The following table sets forth the remuneration for the fiscal year ended July 31, 1970 of each Director and the three highest paid officers of the Company whose remuneration for the year from the Company and its subsidiaries exceeded \$30,000, and all Directors and officers as a group:

<u>Name</u>	<u>Capacity in Which Remuneration Was Received</u>	<u>Aggregate Direct Remuneration</u>
David Stirling, Jr.	Chairman of the Board and Chief Executive Officer	\$ 75,557
William G. Stirling	President and Chief Operating Officer	\$ 75,557
Harold M. Yanowitch	Executive Vice President and General Counsel	\$ 70,653
Richard Karkow	Executive Vice President and Treasurer	\$ 63,750
David Stirling, Sr.	Vice President	\$ 44,984
All Directors and Officers as a Group (11 Persons)		\$498,310(1)

Note (1)—The law firm of which Mr. Kheel is a member received \$50,000 during the year ended July 31, 1970 for services rendered, which amount is not included in the above figure.

The Company has entered into employment agreements terminating in September 1974 with David Stirling, Jr., William G. Stirling, David Stirling, Sr., Harold M. Yanowitch and Richard E. Karkow pursuant to which they will receive annual basic compensation of \$75,000; \$75,000; \$45,000; \$70,000; and \$65,000, respectively. Employment agreements with all directors and officers as a group (including the foregoing) provide for basic salaries aggregating \$649,000 for the year ending July 31, 1971. All of the employment agreements expire during the years 1974 and 1975.

On August 11, 1969 the Company issued and sold to Richard E. Karkow 100,000 shares of its Common Stock at a price of \$1.00 per share. Since the beginning of the last fiscal year the Company has advanced \$183,723 for the purchase of building materials for the use of David Stirling, Jr., all of which has been repaid by Mr. Stirling. In February 1970 the Company and twenty-nine of its shareholders sold 1,175,000 shares of its Common Stock in a public offering registered under the Securities Act of 1933. The selling shareholders agreed to assume their proportionate share of the expenses of the offering. Pursuant to the agreement, Harper Sibley, Jr. became indebted to the Company for \$36,584, all of which has been paid.

2. Amendment of Qualified Stock Option Plan

The Plan as originally approved by shareholders in 1968 authorized the granting of options to eligible employees to purchase up to 400,000 shares of Common Stock of the Company. As the Company grows, so does its need for persons in executive, managerial, and technical capacities. When the existing Plan was adopted, the Company employed approximately 150 persons. As of November 15, 1970, it

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employed over 1,000 persons, 81 of whom hold options, and the number of options which could be granted under the existing Plan has been exhausted. Subject to shareholder approval of the amendment to the Plan, which has been approved by the Board, approximately 40,000 options, in addition to 400,000 previously authorized by shareholders, have been granted to recently hired employees, none of whom are officers or Directors. The Board recommends that the Plan be amended to increase, by 500,000 shares of Common Stock, the aggregate number of shares for which options may be granted under the Plan.

To be adopted, the aforesaid amendment must be approved by the affirmative vote of a majority of all outstanding shares of Common Stock.

The Plan authorizes the granting of options to executive officers and key employees of Stirling Homex and provides that options may contain appropriate provisions for adjustment of the kind and number of shares subject to each outstanding option in the event of any changes in the outstanding Common Stock of Stirling Homex by reason of a merger, stock split or similar events. The Plan also provides that, in the event of such changes, appropriate adjustments shall be made in the number of shares available thereunder for which options have not been granted.

The Plan is administered by a Stock Option Committee composed of Messrs. David Stirling, Jr., William G. Stirling, and Harold M. Yanowitch. The Committee selects the employees of the Company to whom options are to be granted as well as the number of shares to be optioned. Under the Plan, the option price per share is 100% of the fair market value of the stock on the day the option is granted. Options may not be exercised during the first year after grant. On the first anniversary of the date of grant, 20% of the shares subject to option become purchasable; 20% become purchasable on the second anniversary; 20% on the third anniversary; 20% on the fourth anniversary, and the remaining 20% become purchasable 54 months after the date of grant. These installments are cumulative. No portion of the option is exercisable after the expiration of five years after such option is granted. The option price is payable in full on exercise of the option.

It is intended that options granted under the Plan be "qualified stock options" under the Internal Revenue Code. Section 421(a) of the Code provides that no income will be recognized by an optionee upon transfer to him of shares pursuant to his exercise of a qualified stock option. However, the amount, if any, by which the fair market value of such shares at the time of exercise of a qualified stock option exceeds the option price will constitute an item of "tax preference" which may be subject to a minimum tax in the year of exercise under Sections 56 through 58 of the Internal Revenue Code. In order to avail himself of the tax benefit provided in Section 421(a), the optionee must make no disposition of the shares so received before the expiration of the three year period beginning on the day after the day of such receipt. Assuming compliance with this and other applicable Code provisions, an optionee will realize gain or loss when he disposes of his shares. Such gain or loss will be measured by the difference between the option price and the amount received for the shares at the time of disposition and, under present law, will be treated as capital gain or loss to the optionee.

If the optionee disposes of shares acquired by exercise of a qualified stock option before the expiration of the three year holding period, any amount realized from such a disqualifying disposition will be taxable as ordinary income in the year of disposition to the extent that the lesser of the fair market value of the shares on the date the option was exercised, or the fair market value at the time of such disposition, exceeds the option price. Any amount realized in excess of the fair market value of the shares on the date of exercise will be treated as long or short term capital gain depending upon the holding period of the shares.

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No deduction will be allowed to the Company for Federal income tax purposes at the time of the grant or exercise of a qualified option. At the time of a disqualifying disposition by an optionee, the Company will be entitled to a deduction for the amount received by the optionee to the extent that such amount is taxable to the optionee as ordinary income.

In October 1969, Harold M. Yanowitch was granted qualified stock options to purchase 25,000 shares for \$3.00 a share and Richard E. Karkow was granted 15,000 options at the same price. Upon joining the Company, C. W. Marshall was granted options to purchase 25,000 shares of Common Stock at \$15.50 per share. Since the adoption of the Plan and through December 15, 1970, all Directors and officers as a group have been granted qualified stock options to purchase 124,000 shares at an average price of \$6.34 per share and other employees have been granted options for 315,100 shares at an average option price per share of \$10.59. An officer of the Company has exercised options to purchase 2,000 shares for an aggregate purchase price of \$6,000. The aggregate market value of the shares purchased on the dates of purchase was approximately \$42,775. In September 1970 such officer sold 150 other shares of Common Stock.

The Board of Directors recommends that shareholders vote "IN FAVOR OF" the proposed amendment to the Plan as a means of attracting and retaining the type of personnel necessary for the continued growth of Stirling Homex.

Other Matters

Your management does not intend to bring any matters before the meeting other than as set forth in the Notice of Meeting, nor does your management have any information that other matters will be brought before the meeting. However, if any other matters do properly come before the meeting, it is the intention of the persons named in the form of proxy to vote such proxy in accordance with their judgment on such matters.

The Company will bear the cost of solicitations of proxies. It will reimburse brokers and other persons holding stock in their names, or in the names of nominees, for their expenses in connection with sending proxy material to principals and obtaining their proxies.

All proxies received pursuant to this solicitation will be voted and where a choice is specified with respect to the proposal concerning the amendment of the qualified stock option plan, they will be voted in accordance with such specification. A shareholder giving a proxy has the right to revoke it at any time before it has been voted.

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PROXY — STIRLING HOMEX CORPORATION

The undersigned hereby appoints DAVID STIRLING, JR., WILLIAM G. STIRLING, and HAROLD M. YANOWITZ, and each of them, the attorneys and proxies of the undersigned, with power of substitution, to vote on behalf of the undersigned all the shares of stock of STIRLING HOMEX CORPORATION which the undersigned is entitled to vote at the Annual Meeting of Shareholders of the Company to be held in the Auditorium of the Marine Midland Bank—Rochester, One Marine Midland Plaza, Rochester, New York, on February 5, 1971 at 10 A.M. and at all adjournments thereof, hereby revoking any proxy heretofore given with respect to such stock, and the undersigned authorizes and instructs said proxies to vote as follows:

- (1) In the election of directors FOR the persons named in the accompanying Proxy Statement unless a checkmark is made in this box ☐;
- (2) IN FAVOR OF ☐ AGAINST ☐ adoption of an amendment to the qualified stock option plan of the Company increasing by 500,000 shares the number of shares of Common Stock issuable thereunder; and
- (3) In their discretion upon such other business as may properly be brought before the meeting.

(Continued and to be signed on other side)

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If no instruction to the contrary is indicated, this proxy will be voted in the election of directors and in favor of proposition (2).

Dated:, 1971

Please sign exactly as your name or names appear below.

REC'D SEC.
JAN 1 11971

THIS PROXY IS SOLICITED ON BEHALF OF THE MANAGEMENT.

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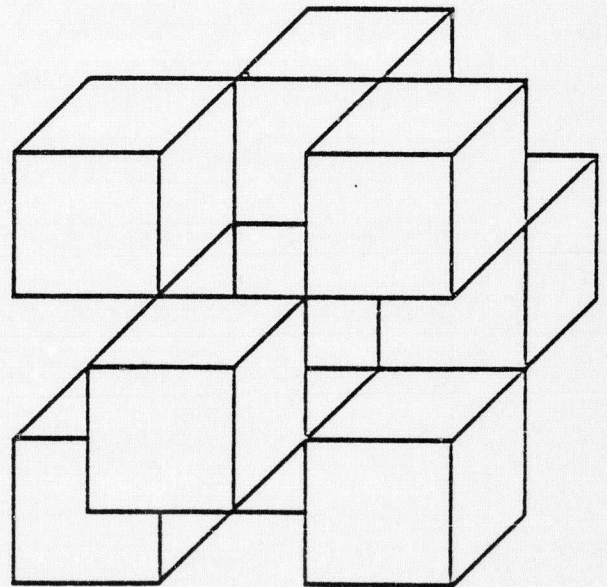
Stirling Homex Corporation 1971 Annual Report

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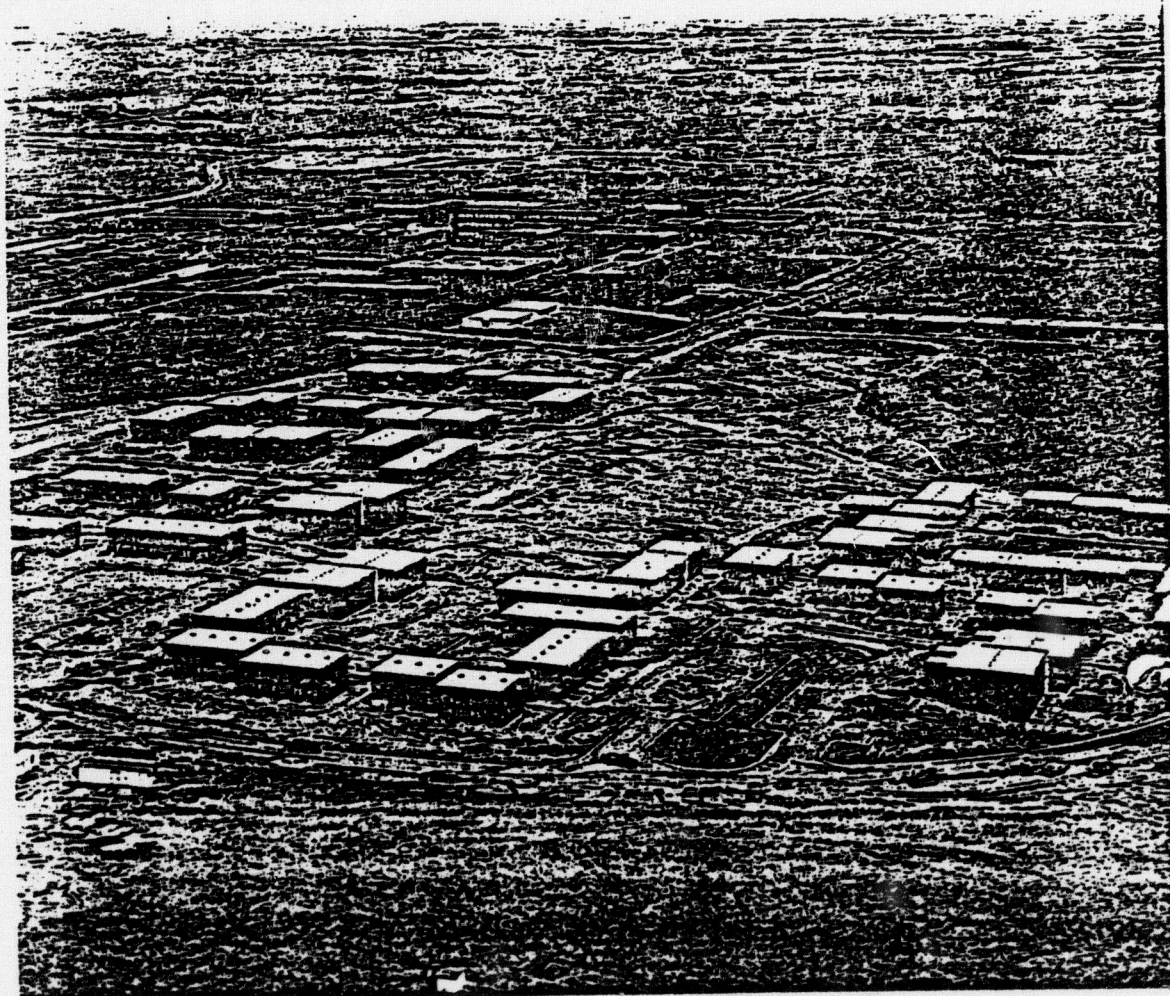
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OCT 12 1971

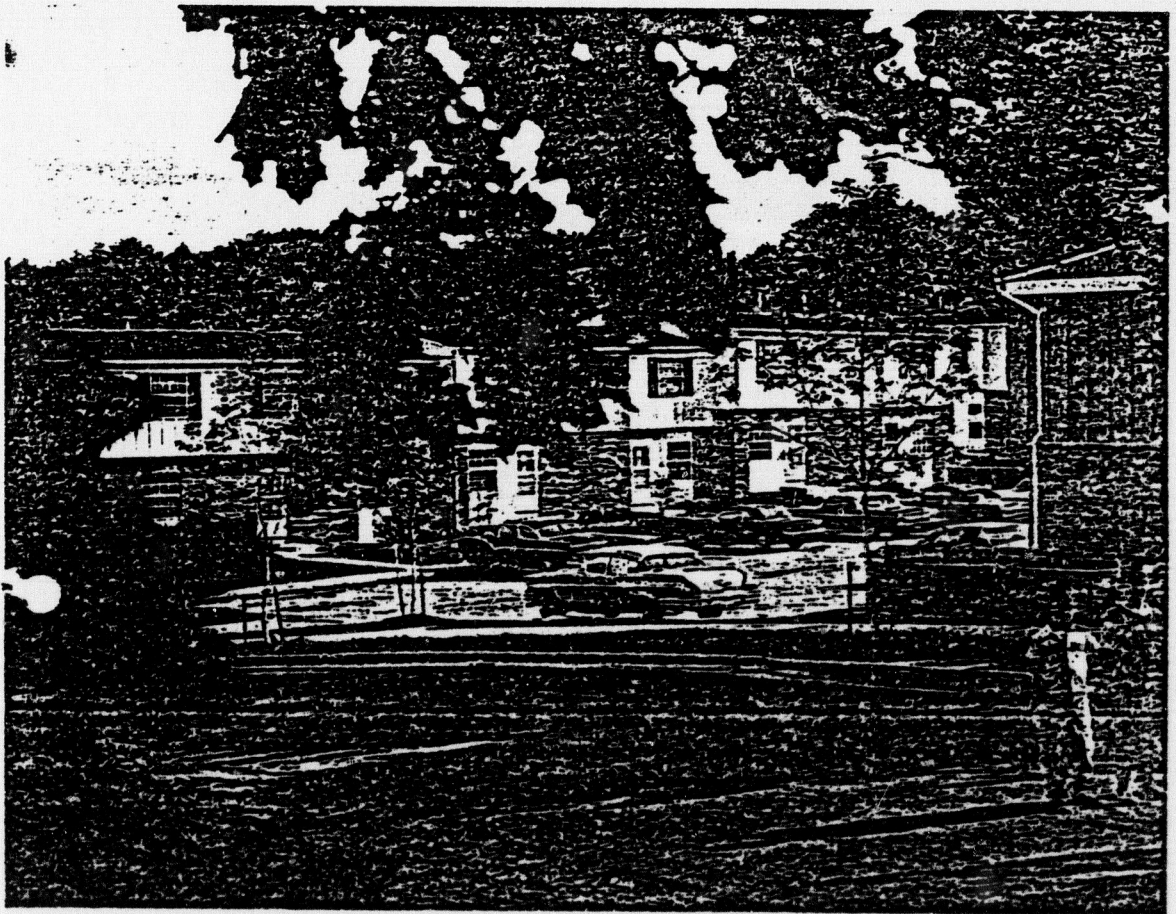
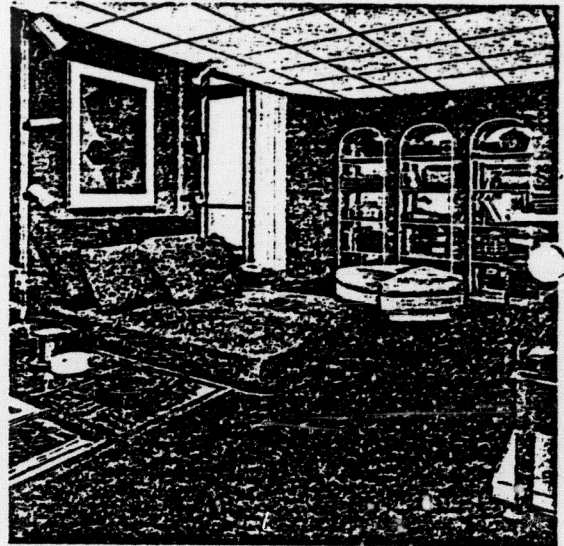


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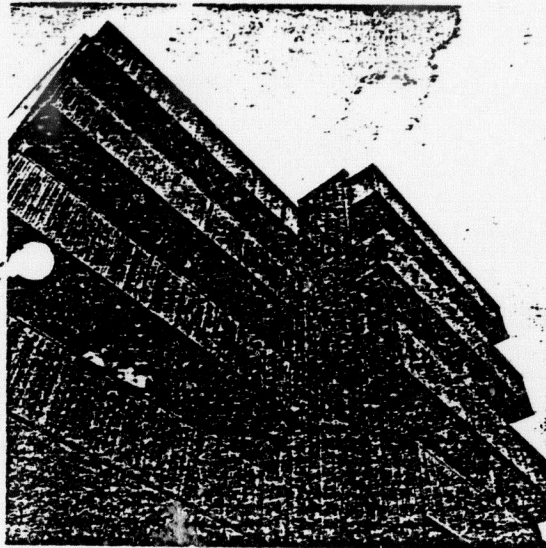
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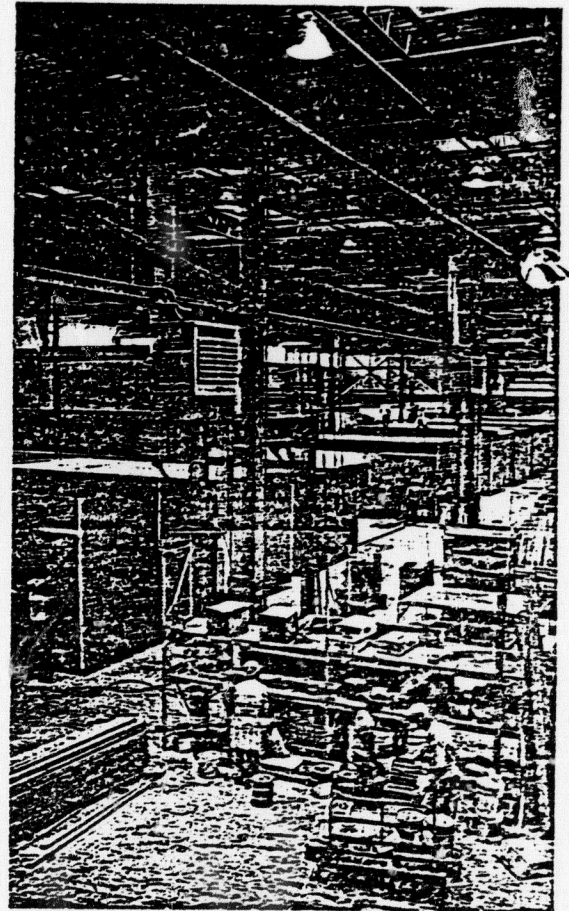
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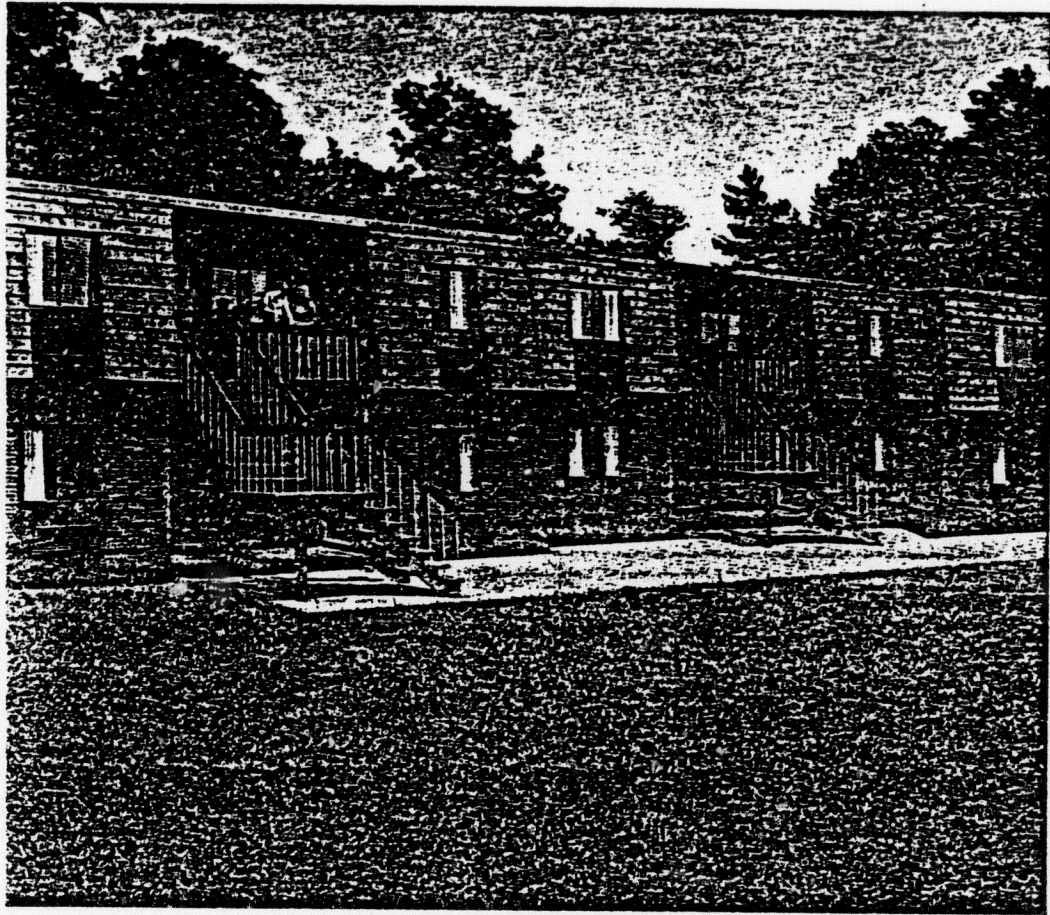
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1. Stirling Homex installed 616 modules in 31 days on the campus of Rochester Institute of Technology.
2. New attractive townhouse module is lifted into place at installation site.
3. Modular HI-RISE housing by Stirling Homex was featured as the September 1971 cover story of *House & Garden* magazine.
4. One, two, three, four and five bedroom townhouses were installed in a dozen cities in six states last year.
5. Stirling Homex high-rise building at Avon, N. Y.
6. Manufacturing capability was expanded by more than 100% last year to allow full scale volume production of either steel and concrete or wood-based modules.
7. Completed module being wrapped for shipment in factory.
8. Furnished resident apartment units were introduced in 1971.
9. Stirling Homex modules are shipped by truck and rail and will soon be transported by barge.
10. Stirling Homex conducts classroom and on-the-job training programs.
11. Coordinated interior design and furnishings fully complement the livability of Stirling Homex units.
12. Product Research and Design groups constantly search for new and better materials and methods for our products.
13. Stirling Homex headquarters office and main manufacturing plant in Avon, N. Y.

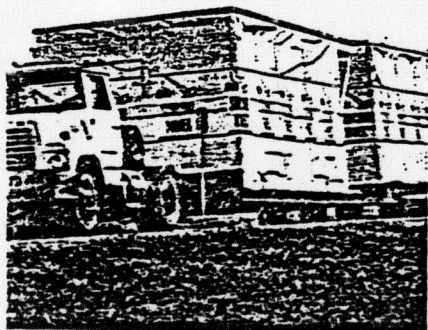


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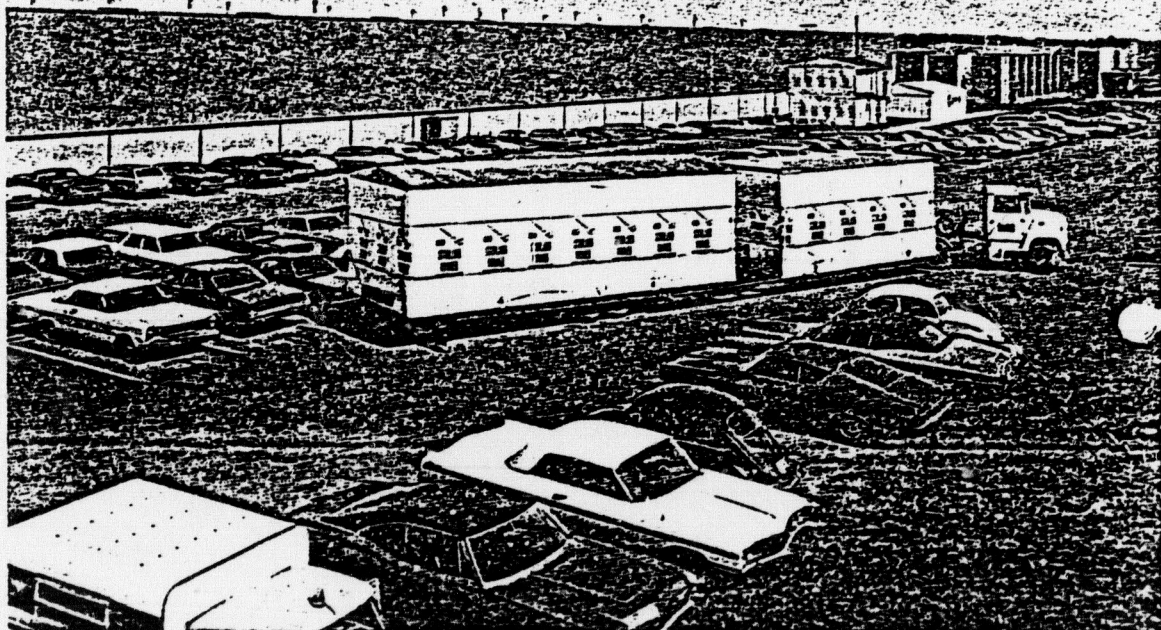
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Board of Directors

David Stirling, Jr.
Chairman and Chief Executive Officer
William G. Stirling
President and Chief Operating Officer
Harold M. Yanowitch
Executive Vice President and General Counsel
David Stirling, Sr.
Vice President
Charles W. Marshall
President, U. S. Shelter Corporation
Theodore W. Kheel
Partner in the law firm of Battle, Power,
Stokes & Kheel, New York, N. Y.
John W. Castellucci
President of the National Association of
Blue Shield Plans, Chicago, Illinois

Officers

David Stirling, Jr.
Chairman of the Board and Chief Executive Officer
William G. Stirling
President and Chief Operating Officer
Harold M. Yanowitch
Executive Vice President and General Counsel
Edwin J. Schulz
Senior Vice President of Operations
Emil A. Bartz
Vice President and Secretary
Frank Csapo
Vice President of Manufacturing
Reuben K. Davis
Vice President and Assistant Secretary
S. Porter Driscoll
Vice President
Product Research and Design
Newman J. Evans
Vice President of Marketing
Gary L. Hammons
Vice President of Real Estate
Herman D. Hillman
Vice President and Associate General Counsel
New York, N. Y.
Paul M. Kueke, Jr.
Vice President and Treasurer
Victor G. Pappas
Vice President of Personnel
Arthur E. Rosfield
Vice President of Program Planning
Washington, D. C.
Thomas Santa Lucia
Vice President and Associate General Counsel
David Stirling, Sr.
Vice President
Carl L. Wren
Vice President of Market Research

Main Office:

1150 East River Road
Avon, N. Y. 14414

Branch Offices:

Suite 400, 2011 Eye Street N.W.
Washington, D. C. 20006
437 Madison Avenue
New York, N. Y. 10022
Suite 1207, 200 East Capitol Street
Jackson, Mississippi 39201
2850 West Market Street
Akron, Ohio 44313

Certified Public Accountants

Peat, Marwick, Mitchell & Co.
Rochester, N. Y.

General Counsel

Shes Goid Climenko & Kramer
New York, N. Y.

Investment Bankers

Merrill Lynch, Pierce, Fenner & Smith, Inc.
New York, N. Y.

Transfer Agent

Chemical Bank
New York, N. Y.

Registrar

Chase Manhattan Bank, N.A.
New York, N. Y.

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Stirling Homex Corporation 

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Mr. Gill

526-7298

Mr. Barber

Stirling Homex Corporation 1971 Annual Report

Highlights: July 31, 1970 to July 31, 1971

Substantially increased sales and earnings.

Designed and expanded new low-rise townhouse line.

Broadened markets into conventional, private, institutional and Federally-assisted programs.

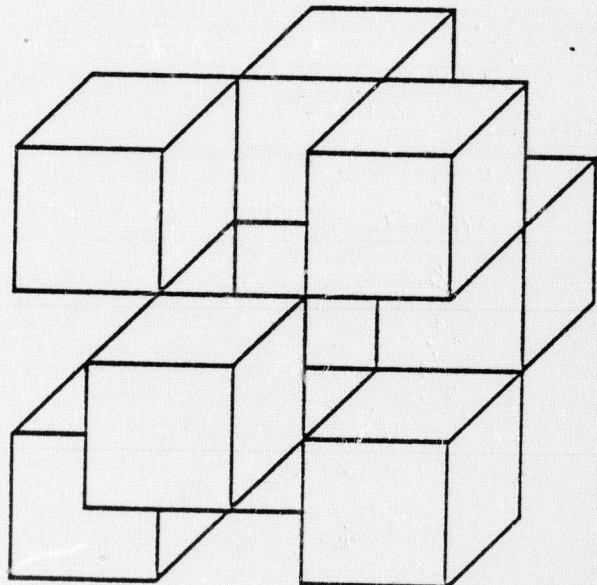
Doubled manufacturing capacity at Avon, New York.

Completed preparations for the commencement of construction for new plant at Gulfport, Mississippi.

Completed research and development for water shipment of modules, complementing rail and highway.

Completed all facilities and all preparation for full-scale production for high-rise modular units.

Installed 616 modules in 31 days at Rochester Institute of Technology, a world speed record.



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William G. String

David Stirling, Jr.

To Our Shareholders:

It is with both pleasure and pride that we submit our second Annual Report to the shareholders of the Stirling Homex Corporation. During fiscal 1971, your Corporation greatly expanded its sales, earnings, markets, product lines, production capacity and organizational capability.

We are confident that you will share with management our satisfaction with the accomplishments of this past year and our excited anticipation for the coming years. The body of your Annual Report will focus in greater detail on the many valid reasons for this optimism.

For the fiscal year ended July 31, 1971, the Company's net income was \$3,252,663, a 60 percent increase from the year before. Earnings per share were 37 cents, compared with 24 cents in fiscal 1970. Total revenues in fiscal 1971 were \$36,847,728, a rise of 63 percent from the previous year. Backlog as of July 31 was \$183 million, a gain of 252 percent from a year earlier.

On July 29, Stirling Homex completed an underwriting of \$2.40 cumulative convertible preferred stock which increased working capital by approximately \$19 million. Merrill Lynch, Pierce, Fenner & Smith Inc. headed a group of underwriters who marketed the successful offering. The proceeds were used to reduce short-term bank notes and strengthen the Company's financial position. Stockholders' equity in the Company was increased during the fiscal year from \$11,653,382 to \$33,333,128.

As a result of continuing research and development, Stirling Homex in February brought out an attractive new line of modular townhouse apartments. The newly styled low-rise line was expanded to include studio, one and five-bedroom units in addition to two, three and four-bedroom townhouses. Featuring redwood and brick facades with cedar shake mansard roof lines, the new models immediately gained favorable market acceptance.

The Company continued to improve its lightweight concrete and steel high-rise modular apartments which were featured in the September cover story of HOUSE & GARDEN Magazine. Stirling Homex has developed additional installation techniques for its high-rise modules, while maintaining the unique hydraulic jacking system. The Company has secured a U. S. patent on its factory assembly line and methods for building modular housing. In addition, the Company has been advised that two of its patent applications relating to its high-rise building systems have been allowed. Additional patent applications covering the Stirling Homex high-rise systems are pending in this and other countries.

We have signed a \$3.6 million contract with the U. S. Department of Housing and Urban Development to manufacture and install a 13-story high-rise building containing more than 200 units at Memphis, Tennessee for the "Operation Break-

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through" Program. The building is scheduled to be completed by June, 1972.

During the year, we began marketing our products to a much broader consumer spectrum. In the past, the Company generally had limited its activities to Federally-assisted housing programs and assumed all responsibility from manufacture to completion of the project. This year, we entered the private shelter market and added conventional and other forms of financing to supplement Federally-sponsored programs. Our new markets include efficiency resident apartments, hotel/motel, college housing and others. The Company continues to successfully sell its products to local public agencies and non-profit sponsors receiving Federal assistance.

Stirling Homex entered the college housing market during the summer. We installed 275 apartment units in 31 days for the Rochester Institute of Technology. This was a world speed record for the erection of housing at an individual site by one company. Other institutions of higher learning and state authorities have expressed interest in the Company's products and performance capability.

A new thrust into private markets was made in Utica, New York where a local contractor is installing 112 Stirling Homex furnished, modular efficiency units for a private developer. This middle income \$1.5 million project utilized conventional financing.

A variety of other developments were initiated during the year. Stirling Homex received orders from customers in New York, Mississippi, Indiana, Ohio, Pennsylvania, West Virginia, Massachusetts, Washington, D. C., Maine and Virginia.

Keeping pace with our expanding sales and marketing efforts, the Company will soon break ground for a \$5 million twin-line manufacturing facility at Gulfport, Mississippi which will significantly increase production capacity.

Using marine, rail and highway transportation, the new Gulf Coast plant will provide housing modules for marketing throughout the South, Southwest, lower Midwest and Caribbean area. The new facility will have a self-contained loading

dock for shipping our products via the inland waterway system and by sea. Construction of this modern production complex is expected to be completed and operational in fiscal 1972.

The facility will be financed by industrial revenue bonds.

During the year, the Company completed a 75,000 square foot expansion of the Avon manufacturing facilities which doubled our production capacity. Additional production efficiencies have been incorporated in the two lines at Avon which produce both wood-based low-rise and concrete and steel high-rise modules. Stirling Homex, which currently transports its products by train and truck, is the only housing producer to ship housing cross-country by railroad for major projects in the United States.

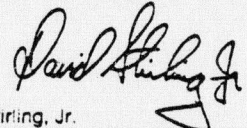
As a pioneer in a new industry with advanced housing techniques and technology, Stirling Homex is continuing its specialized training programs for all levels of personnel. In cooperation with the United Brotherhood of Carpenters and Joiners (AFL-CIO), the Company trains unskilled persons to become certified housing assemblers under a contract with the New York State Department of Labor. Stirling Homex has been accredited as an Approved Veterans Training Facility.

U. S. Shelter Corporation, a wholly-owned subsidiary, is active in providing both construction and permanent financing for Stirling Homex customers. U. S. Shelter has developed a variety of conventional and Federally-assisted financing techniques for housing.

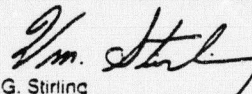
In view of the Company's expanded production, marketing, and financing capabilities, we anticipate that sales and earnings will increase in fiscal 1972. The outlook for industrialized housing is bright as the need for housing continues to rise.

Our leadership position in the quality modular housing industry has been significantly strengthened. We enthusiastically look to the future and its opportunities for our orderly growth and an ever-increasing demand for your firm's products and services.

We are appreciative of the efforts of our employees, management, directors and the confidence of our shareholders and customers in achieving such significant progress.



David Stirling, Jr.
Chairman and Chief Executive Officer



William G. Stirling
President and Chief Operating Officer

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Progress in 1971 and the Opportunities for Tomorrow

We are gratified to report to you that our total revenue and income in the fiscal year ending July 31, 1971 increased substantially over the previous year. This also has been a year in which the Company has grown in potential, capability and depth.

Greatly Expanded Products and Markets

Significantly, while sales in the previous twelve months were almost totally restricted to housing authorities under the public housing program, sales in the year completed include the private unsubsidized market, college housing, the FHA Rental Assistance Program, the sale of resident apartment units, as well as maintaining and diversifying our sales volume in the various public housing programs.

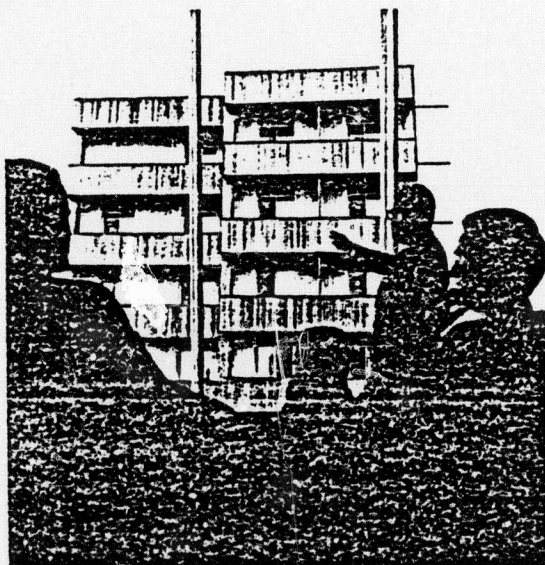
The sustained and increasing demands of the multi-family housing market indicate a strong and continued acceptability of our line of use-proven townhouses which are equally suitable for condominium or cooperative sale, as well as ideal rental units.

In addition to the redesign and expansion of our townhouse line, we introduced several marketing and product innovations:

- **Efficiency Resident Apartments** . . . The ever increasing mobility and life-style changes of our population demanded a new shelter configuration. Marking a new era in housing, these units provide a full amenity package for a multitude of people whose specific shelter needs are presently unfulfilled.
- **Motels for the commercial traveler, vacationer, resort staff housing.**
- **College Housing** . . . Specially designed suites which provide a creative and wholesome environment for single or married students and faculty.
- **High-Rise Apartments** . . . The ever expanding demand for shelter for the elderly, young urban families, and the cooperative and condominium markets, insure a substantial potential volume for the newly developed high-rise product range.
- Your Company has today the largest fleet of special module transportation equipment in the industry. Entire developments can be simultaneously shipped by rail or highway.
- With the completion of present development programs utilizing the nation's free waterways, we will be able to effectively service, from Avon, New York, and Gulfport, Mississippi, a market area which encompasses over 80% of America's population.

Responding To America's Challenging Needs

Because Stirling Homex gives a total, immediate and quality response, the Company has provided answers to many of the great housing problems encountered by the men building and re-shaping America.



Government's Exhibit 16

New Towns. An alternative to city overgrowth, density, congestion and pollution has been the development of "New Towns." Today this approach to population and service distribution is recognized as a very practical solution to the ever-growing problem of the megalopolis.

The Congress of the United States is currently pressing for increased legislative authority for New Towns.

Your Company is, for various customers, actively engaged in the design and planning programs of New Town developments in several areas.

College Housing. In late spring, an increase in early enrollment made it apparent that the dynamic and rapidly growing campus of Rochester Institute of Technology in New York State was to have a greater influx of faculty and married students' families than there were accommodations available. The administrators of RIT chose the only possible solution to their dilemma—the expertise, quality, speed and proven technology of a manufactured shelter product.

The college advertised and sought proposals from major industrialized housing producers specifying that the housing had to meet stringent material and design performance standards, and a bond would have to be provided by the developer stipulating that all of the 275 dwelling units would be ready for occupancy prior to the commencement of the school term in September, 1971.



The Stirling Homex proposal was successful, and the Company was awarded a contract valued at just under \$5 million.

- On June 14, 1971, site preparation work was begun.
- On July 7, the first module was swung into place by crane.
- On August 6, the last of the 616 modules were installed—an elapsed time of 31 calendar days for the erection process including 10 rain days.

Project design called for the cut and fill of over 100,000 cubic yards of earth and the installation of 8½ miles of underground utilities.

Displacement Without Disruption. This was the mandate. It could not have been done any other way. Joy Park—an occupied complex of "temporary" barracks built for Akron, Ohio rubber workers during World War II—had to be vacated. Wholesale demolition would have cast all of the residents adrift, disrupted schooling, and provided no alternate opportunity for decent living. Even partial demolition with the new sites being used for conventional building would have caused those residing in the old structures to be without housing for a year or longer while the replacement homes were being constructed.

The Akron Metropolitan Housing Authority and the Stirling Homex Corporation were able to execute a checkerboard method of razing the old structures and installing the new Stirling Homex family units. The dramatic result was a very



Government's Exhibit 16



short and inexpensive disruption of the lives of the affected families. They moved out of the condemned buildings directly into bright, clean new homes located nearby. Today, they have hope, a future, social identification, schooling and continued community life in a new well-planned environment.

New Directions—Design, Technology and Production

Technology requires constant development, control and direction. The Stirling Homex production and assembly facilities represent the collective "know-how" of design-production and field personnel—"live input" gained during 3½ years of full scale production and installation of shelter modules. We now have a vital and unprecedented computer bank of hard data readily available for programmed usage by all departments.

A key element of our growth has been in refining and expanding our production capacity while achieving and maintaining the highest of quality standards and while adding flexibility to both the production and assembly process.

Your Company has today the complete ability to rapidly produce and market high-rise, townhouse and garden apartments from studio suite to 5 bedroom units in wood or concrete and steel—a cumulative "know-how" which gives Stirling Homex the capability to respond fully and rapidly to a wide variety of markets.

Visitors to the Avon facilities are immediately aware of a progressive vitality and spirit. At any point along the main assembly line there is visible and discernible evidence of an efficient methodology which is constantly monitored for system improvement.

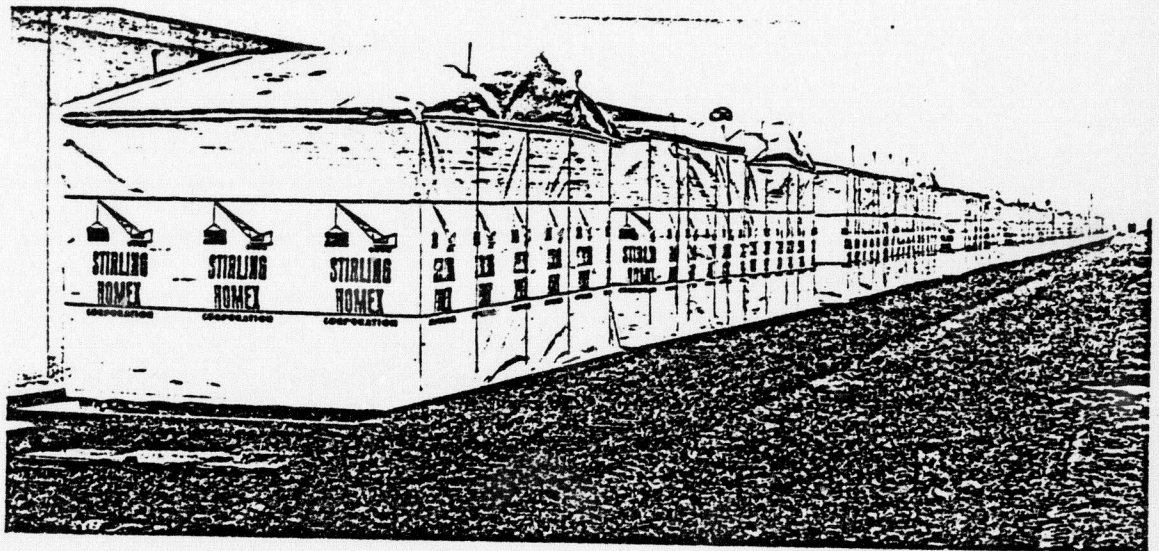
Quality Control—a fully utilized component of the manufacturing process. Over 200 material and process inspections are given every module produced. The quality control unit also gathers installation and client-user maintenance data for analysis. Quality responsibility, like all other product elements, does not stop at the shipping dock! Another reason for the large volume of "repeat" business your Company enjoys.

The Company's Guilford facility will totally synthesize and aggregate all of the production and technology developments perfected to date in the Avon headquarters. Pilot activities and product innovation will continue to enjoy the full input of your Company's management.

Dynamic Innovations In Transportation

The white protective wrapping cover on each module, with its red and black identification logo, has become a familiar sight from Maine to Mississippi and from Ohio to Massachusetts. On specially designed flatbed railroad cars or truck trailers, the Stirling Homex module has become a part of America's transportation scene.

Government's Exhibit 16



Very soon, seagoing vessels and barges will extend the familiarity of the Homex logo to national and international waters.

The ability to provide a sophisticated and technologically complete production facility—as now exists in Avon, New York, and will soon exist in Gulfport, Mississippi—is complemented by the breakthroughs in the transportation of modules achieved by Stirling Homex Corporation.

Last year, a new page in transportation history was written by the Company when a 2,000 foot-long, unit trainload of housing was dispatched almost 1,000 miles from Avon to the tornado-wrecked town of Corinth, Mississippi.

This year, the Company shipped several trainloads of modules and has increased the number of specially rigged flatbed rail cars to 50, an increase of 100% since last year. Our fleet of custom trailers that transport all configurations of housing modules on the highway has grown from 75 to 175—an increase of 125%.

Broad Range Professional Support

This year also saw an important broadening and strengthening of the Company's management and professional skills.

The most sophisticated of production facilities require responsive input from a variety of talents—technicians, architects, engineers, economists, and housing professionals such as the following:

Government's Exhibit 16

Market Research. Stirling Homex utilizes the abundance of available marketing data.

The indices of Market Research are the evidences of the future:

- "The percentage of people 60 years and over will grow second only to those in the 20-30 year age group."
- "The number of college students is expected to rise from its present level of 7 million to about 11 million in 1985."
- "Changes in life style have increased the emphasis on furnished rental units. Projections indicate as many as 25% of all rental units will be furnished by 1978 by the developer."

Education and Training. Your Company has developed 81 educational programs which provided free training and job improvement opportunities for 754 employees last year. These programs include skill development for unemployed men and women who, after training, are graduated as certified "housing assemblers."

The following have cooperated in various training programs:

- United Brotherhood of Carpenters & Joiners of America (AFL-CIO) and its affiliate, Local 1106
- United States Department of Labor
- New York State Department of Labor.

Stirling Homex Corporation has also been accredited as an Approved Veterans Training Facility, which means that production employees meeting eligibility requirements are entitled

to receive full supplementing training benefits from the Veterans Administration for as long as two years.

Product Research and Design. Our complete product line is constantly evaluated. To date, over 21,000 product improvements have been initiated.

Architects, engineers, technicians, land planners and draftsmen—the entire staff of the Product Research and Design Division are daily engaged in perfecting the shelter module of today and the development of the modules which will comprise the communities of the future. An impressive cadre of dedicated and highly qualified, skilled personnel, daily produce a product of progress.

As product or market needs are identified, staff professionals develop conceptual alternatives and definition; the concept then receives a basic feasibility study. Subsequently, the concept is advanced to the Systems Design Section where the interrelationship of architecture, engineering and mechanical services are finalized prior to production.

Concurrently, the testing of all materials and techniques is coordinated by the Material Research Section.

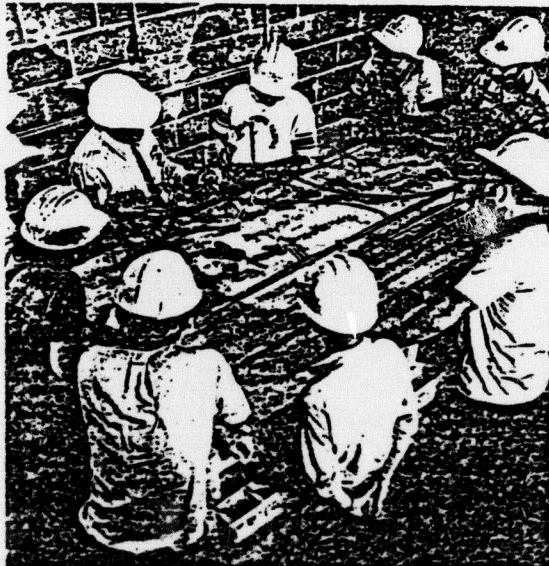
The result of the foregoing is a product which fully incorporates the parallel ongoing studies of Stirling Homex housing units which have been a home to families in several states for over 3½ years.

Marketing. Marketing is concerned with a variety of people and goals—nonprofit organizations, investors, conventional mortgage lenders, Government officials—domestic and foreign—these are the visitors-clients who come to Homex, all of whom are seeking a better and more efficient way of solving their particular housing need. A need which our federal government has stated exceeds 26 million homes in the decade ending 1978. This potential domestic demand is far greater than the capacity of all presently available sources of production.

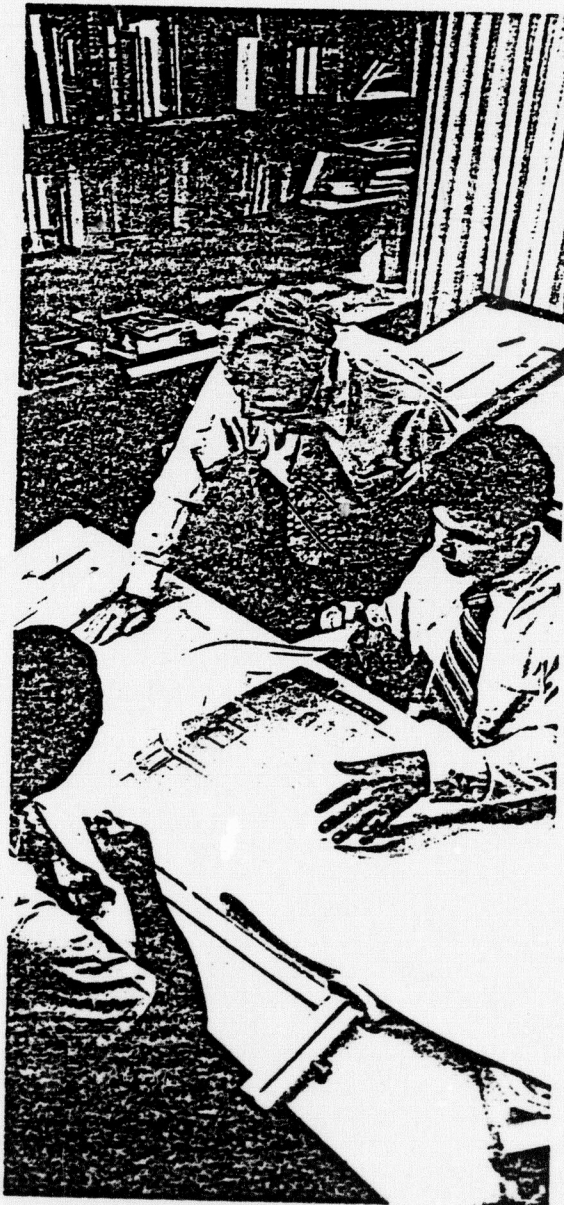
For its customers, Stirling Homex can provide expertise in Design, Engineering, Planning and Site Development—a total shelter package!

U. S. Shelter Corporation. U. S. Shelter was organized as a wholly-owned subsidiary of Stirling Homex, and has been approved by the Federal Housing Administration as a qualified mortgagee. U. S. Shelter provides construction financing as well as permanent mortgage financing upon receiving a commitment from the FHA. For such services, the U. S. Shelter Corporation charges a fee. In addition, U. S. Shelter has been approved to sell and buy mortgages from the Federal National Mortgage Association (FNMA).

Last year, U. S. Shelter Corporation expanded its services and now has the ability to provide our customers with a full range of long and short term conventional and government financing services.



Government's Exhibit 16



Government's Exhibit 16

Management



Harold M. Yandowitch
Exec. Vice Pres., Gen. Counsel



Edwin J. Schulz
Senior Vice Pres., Operations



Gary L. Hammons
Vice Pres.
Real Estate & Installation



Paul M. Kuyveke Jr.
Vice Pres., Treasurer



Newman J. Evans
Vice Pres., Marketing



Herman D. Hillman
Vice Pres.
Assoc. Gen. Counsel



Thomas Santa Lucia
Vice Pres.
Assoc. Gen. Counsel



S. Porter Driscoll
Vice Pres.
Product Research & Design



Frank Osabo
Vice Pres., Manufacturing



Carl L. Wren
Vice Pres., Market Research



Reuben K. Davis
Vice Pres.
Assoc. Gen. Counsel



Victor G. Padoas
Vice Pres., Personnel



Arthur E. Rosfeld
Vice Pres., Program Planning



Emil A. Bartz
Vice Pres., Secretary



Harry Sindon
Director, Sales Engineering



Rubel Phillips
Vice Pres., Southern Region



Jerome Dienstag
Asst. Vice Pres.
Assoc. Gen. Counsel



John E. Green
Asst. Vice Pres., Manufacturing



Wilbur P. Trammell
Asst. Vice Pres.
Assoc. Gen. Counsel

Government's Exhibit 16

Financial Summary

Stirling Homex Corporation and Consolidated Subsidiaries

Consolidated Statement of Income Year ended July 31, 1971 with comparative figures for 1970

	1971	1970
Revenues:		
Manufacturing division—trade (Note 3)	\$29,482,271	16,492,770
Installation division (Note 3):		
Trade	7,230,878	5,601,357
Affiliate	—	459,941
Equity in undistributed net income of subsidiary (Note 1)	134,579	—
Total revenues	<u>36,847,728</u>	<u>22,554,068</u>
Costs and expenses:		
Cost of sales:		
Manufacturing division	17,729,078	9,919,327
Installation division	6,601,413	5,240,388
Administrative and selling expenses	4,048,113	2,390,604
Interest expense	1,838,461	648,181
Total costs and expenses	<u>30,217,065</u>	<u>18,198,500</u>
Income before Federal and state income taxes	<u>6,630,663</u>	<u>4,355,568</u>
Federal and state income taxes (Note 9):		
Current	368,000	1,965,982
Deferred	3,010,000	354,397
	<u>3,378,000</u>	<u>2,320,379</u>
Net income	<u>\$ 3,252,663</u>	<u>2,035,189</u>
Average common shares outstanding (Note 12)	<u>8,881,938</u>	<u>8,649,483</u>
Earnings per common share (Note 12)	<u>\$ 37</u>	<u>24</u>

See accompanying Notes to Consolidated Financial Statements

Government's Exhibit 16

Stirling Homex Corporation and Consolidated Subsidiaries
Consolidated Balance Sheets July 31, 1971 with comparative figures for 1970

Assets	1971	1970
Current assets:		
Cash (Note 11)	\$ 3,196,457	2,778,077
Preferred stock proceeds receivable (Note 2)	19,000,000	—
Receivables (Notes 1 and 3)	37,845,572	15,486,119
Inventories (Note 5):		
Raw materials, work in process and salable merchandise at lower of cost (first-in, first-out) or replacement-market	2,614,200	2,167,603
Land held for development or sale, at cost	1,878,343	1,533,621
Prepaid expenses and other current assets	226,530	124,765
Total current assets	<u>64,761,102</u>	<u>22,140,185</u>
Investment in unconsolidated subsidiary (Note 1)	1,134,579	—
Long-term receivables (Note 4)	4,225,349	541,124
Property, plant and equipment at cost, less accumulated depreciation and amortization: 1971—\$733,705; 1970—\$230,921 (Notes 6 and 8)	9,426,941	5,245,745
Deferred charges, less accumulated amortization: 1971—\$586,011; 1970—\$153,894 (Note 7)	2,558,792	944,109
	<u>\$82,106,763</u>	<u>28,871,163</u>

See accompanying Notes to Consolidated Financial Statements

Government's Exhibit 16

Liabilities and Stockholders' Equity

	1971	1970
Current liabilities:		
Current portion of long-term debt (Note 8)	\$ 295,830	333,036
Notes payable to banks—unsecured (1971—8 to 6½%; 1970—8 to 8½%) (Note 11)	37,700,000	11,700,000
Accounts payable	4,025,254	2,480,834
Due to unconsolidated subsidiary (Note 1)	76,894	—
Accrued expenses and other liabilities	577,377	232,819
Current and deferred income taxes (Note 9)	3,528,125	1,387,338
Total current liabilities	<u>46,203,280</u>	<u>16,134,027</u>
Long-term debt (Note 8)	236,588	496,489
Deferred income taxes (Note 9)	2,098,767	587,265
Option deposit on land contract (Note 5)	235,000	—
Stockholders' equity:		
\$2.40 cumulative convertible preferred stock (Note 2):		
Authorized 500,000 shares, \$1.00 par value; shares subscribed:		
1971—500,000 (aggregate involuntary liquidation value—		
\$20,000,000); 1970—none	500,000	—
Common stock (Notes 2 and 10):		
Authorized 15,000,000 shares, \$.01 par value; shares issued:		
1971—3,909,200; 1970—3,897,400	89,092	88,974
Additional paid-in capital (Note 2)	26,554,453	3,446,738
Retained earnings	6,370,333	3,117,670
	<u>33,513,878</u>	<u>11,653,382</u>
Less treasury stock at cost (60,000 shares)	180,750	—
Total stockholders' equity	<u>33,333,128</u>	<u>11,653,382</u>
Commitments and contingencies (Note 11)		
	<u>\$82,106,763</u>	<u>28,871,163</u>

Government's Exhibit 16

Stirling Homex Corporation and Consolidated Subsidiaries
Consolidated Statement of Changes in Financial Position
 Year ended July 31, 1971 with comparative figures for 1970

	1971	1970
Source of working capital:		
Net income	\$ 3,252,663	2,035,189
Expenses not requiring outlay of working capital:		
Depreciation and amortization	529,116	220,227
Amortization of deferred charges	432,117	133,288
Deferred income taxes (noncurrent)	1,511,502	184,776
Undistributed net income of finance subsidiary	(134,579)	—
Working capital provided from operations	5,590,819	2,573,480
Net proceeds from sales of stock:		
Public offering of common stock	—	5,985,715
Private sale of common stock	—	516,500
Common stock issued under qualified stock option plan	37,200	—
Public offering of preferred stock	18,570,633	—
Long-term borrowings	51,402	124,677
Decrease in long-term receivables	10,000	43,421
Option deposit received on land contract	235,000	—
Total source of working capital	<u>24,495,054</u>	<u>9,243,793</u>
Application of working capital:		
Purchase of treasury stock	180,750	—
Additions to property, plant and equipment	4,710,312	4,422,506
Additions to deferred charges	2,046,800	735,093
Reduction in long-term debt	311,303	3,052,140
Increase in noncurrent portion of long-term receivables	3,694,225	—
Investment in unconsolidated subsidiary	1,000,000	—
Total application of working capital	<u>11,943,390</u>	<u>8,209,739</u>
Increase in working capital	<u>\$12,551,664</u>	<u>1,034,054</u>

See accompanying Notes to Consolidated Financial Statements.

Government's Exhibit 16

	1971	1970
Changes in working capital:		
Increase in current assets:		
Cash	\$ 418,380	1,357,917
Preferred stock proceeds receivable	19,000,000	—
Receivables	22,359,453	12,286,631
Inventories	741,319	1,236,215
Prepaid expenses and other current assets	101,765	34,973
	<u>42,620,917</u>	<u>14,915,736</u>
Increase in current liabilities:		
Current portion of long-term debt and notes payable to banks	25,962,594	10,721,700
Accounts payable and accrued expenses	1,888,978	2,155,635
Due to unconsolidated subsidiary	76,894	—
Current and deferred income taxes	2,140,787	1,004,347
	<u>30,069,253</u>	<u>13,881,682</u>
Increase in working capital	<u>\$12,551,664</u>	<u>1,034,054</u>

During the year ended July 31, 1971, the Company assigned \$4,650,000 of its accounts receivable, without recourse, to an unconsolidated subsidiary for which that subsidiary paid \$4,650,000 to the Company. See Note 1.

Government's Exhibit 16

Stirling Homex Corporation and Consolidated Subsidiaries
Consolidated Statements of Additional Paid-in Capital and Retained Earnings
 Year ended July 31, 1971 with comparative figures for 1970

Additional Paid-in Capital

	1971	1970
Balance at beginning of period	\$ 8,446,738	1,949,813
Excess of proceeds over par value of 400,000 shares of common stock issued in public offering (less expenses of \$118,285)	—	5,981,715
Excess of proceeds over par value of 129,000 shares of common stock issued in private sales (less applicable expenses)	—	515,210
Excess of proceeds over par value of 500,000 shares of preferred stock issued in public offering (less expenses of \$429,367) (Note 2)	18,070,633	—
Excess of proceeds over par value of 11,800 common shares issued under stock options (Note 10)	37,082	—
Balance at end of period	<u>\$26,554,453</u>	<u>8,446,738</u>

Retained Earnings

Balance at beginning of period	\$ 3,117,670	1,082,481
Net income	3,252,663	2,035,189
Balance at end of period	<u>\$ 6,370,333</u>	<u>3,117,670</u>

See accompanying Notes to Consolidated Financial Statements.

Government's Exhibit 16

Notes to Consolidated Financial Statements July 31, 1971

(1) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries except for U. S. Shelter Corporation, its financing subsidiary (all of which are wholly-owned). The Company carries its investment in all subsidiaries at equity in the underlying net assets. On consolidation, all significant accounts and transactions with consolidated subsidiaries have been eliminated.

The following are condensed financial statements of the unconsolidated financing subsidiary:

Balance Sheet
July 31, 1971

Assets	
Cash	\$ 5,171
Accounts receivable—unbilled (Note a)	4,950,000
Other assets	24,593
Due from parent company	76,894
	<u>\$5,056,658</u>
Liabilities and Stockholder's Equity	
Notes payable—bank (7%) (Note b)	\$3,750,000
Payables, accruals and other liabilities	172,079
Stockholder's equity	1,134,579
	<u>\$5,056,658</u>

Statement of Income
From date of Incorporation
(September 25, 1970) to July 31, 1971

Finance income	\$544,946
General and administrative expenses (including interest expense of \$54,917)	263,367
	<u>281,579</u>
Federal and state income taxes—current	147,000
Net income	<u>\$134,579</u>

Notes:

(a) Accounts receivable includes \$4,650,000 relating to accounts assigned to U. S. Shelter by the Company for which U. S. Shelter remitted cash.

(b) The subsidiary has obtained an unsecured \$15,000,000 line of credit from a bank. These funds are being used in financing transactions involving customers of the Company. The Company has not guaranteed this line of credit.

(2) Preferred Stock Offering

On July 29, 1971, the Company, through its underwriters, offered 500,000 shares of \$2.40 cumulative convertible preferred stock to the public at \$40 per share. Net proceeds of \$19,000,000, after deducting an underwriting discount, were received by the Company on August 5, 1971. Additional paid-in capital has been credited with the net proceeds received less the par value of the stock issued (\$500,000) and expenses related to the offering (\$429,367).

The preferred stock is nonvoting except for certain defined events which would significantly affect the preferred stockholders' equity interests. The preferred shares are convertible into 1,379,310 common shares subject to adjustment in certain events, including stock split-ups and stock dividends. At its option, the Company may redeem the preferred stock at an initial price of \$50 per share, as of August 1, 1971, ranging downward annually to \$40 per share as of August 1, 1981 and thereafter.

(3) Receivables

The Company enters into various modular housing sales contracts which contain an allocation of the sales price between modules (based upon published price lists) and installation work. Sales of modules (Manufacturing Division) are recognized when units are manufactured and assigned to specific contracts. Installation work (Installation Division) is recorded on the percentage of completion method. The contracts generally provide for payment upon completion and receipt of all approvals necessary for occupancy, or for payment upon completion of each respective phase. "Unbilled" receivables represent recorded sales on contracts in process for which billings will be rendered in the future in accordance with the contracts.

Receivables consist of:

	July 31, 1971	July 31, 1970
Contract receivables:		
Billed	\$10,382,626	10,559,145
Unbilled	24,633,799	4,626,370
Total	<u>35,016,425</u>	<u>15,185,515</u>
Income tax refund receivable (Note 3)	2,498,672	—
Current portion of long-term receivables (Note 4)	12,500	17,500
Other receivables	317,975	233,104
	<u>\$37,345,572</u>	<u>15,486,119</u>

Government's Exhibit 16

Stirling Homex Corporation and Consolidated Subsidiaries
Notes to Consolidated Financial Statements (continued) July 31, 1971

(3) Receivables (continued)

Substantially all sales are to local housing authorities and sponsors who qualify for financial assistance from Federal agencies of the U. S. Government or who have made arrangements for long-term financing. In light of this, no provision for doubtful accounts is considered necessary.

See the condensed financial statements of U. S. Shelter Corporation in Note 1 for information with respect to receivables assigned by the Company to U. S. Shelter Corporation.

(4) Long-Term Receivables

Long-term receivables consist of:

	July 31, 1971	July 31, 1970
Mortgages receivable:		
Mortgage due June 1, 1974— payments of \$2,500 due quarterly with interest at the prime commercial rate in effect on the interest payment date	\$ 241,624	256,624
Mortgage due June 30, 1975— payments of \$25,000 due June 30, 1973 and June 30, 1974 and the balance due June 30, 1975. Interest payable annually at the prime commercial rate in effect on the interest payment date	302,000 543,624	302,000 558,624
Less installments due within one year (Note 3)	12,500	17,500
	531,124	541,124
Long-term portion of contract receivables—unbilled	3,694,225	—
	<u>\$4,225,349</u>	<u>541,124</u>

The mortgage notes are secured by mortgages on the property sold.

(5) Inventories

Inventories of the Company consist of the following:

	July 31, 1971	July 31, 1970
Raw materials	\$1,439,960	963,664
Work in process	1,001,632	139,531
Salable merchandise	172,608	1,064,408
	<u>\$2,614,200</u>	<u>2,167,603</u>

Land held for development or sale is recorded at cost plus real estate taxes, mortgage interest and other related carrying costs. The Company has entered into a contract to sell a parcel of the land with costs of \$673,017 for a sale price of \$2,100,000. The Company has received non-refundable payments of \$235,000 which have been accounted for as an option deposit.

(6) Property, Plant and Equipment

Property, plant and equipment consist of the following:

	Useful Life	July 31, 1971	July 31, 1970
Land and land improvements	20	\$ 1,136,499	1,002,067
Buildings	10 & 45	4,822,055	1,702,924
Machinery, equipment and tools	2—10	1,735,396	1,071,515
Furniture, fixtures and office equipment	5—10	942,131	500,951
Other	1—15	135,952	27,998
Construction in progress		1,388,613	1,171,211
		10,160,646	5,476,666
Less accumulated depreciation and amortization		733,705	230,921
		<u>\$ 9,426,941</u>	<u>5,245,745</u>

The straight-line method of depreciation is used for all depreciable assets. Depreciation expense for the years ended July 31, 1971 and 1970 is \$529,116 and \$220,227 respectively.

Government's Exhibit 16

(7) Deferred Charges

The unamortized balance of deferred charges consist of:

	Amortization Period	Unamortized Balance July 31, 1971	July 31, 1970
Patents pending and trademarks	Legal Life	\$ 171,680	88,660
Training and professional development	3 years	491,641	148,636
Research and development	5 years	671,897	84,496
Project and production start-up costs	2 to 5 years	844,028	503,539
Property acquisition costs	(a)	379,546	118,778
		<u>\$2,558,792</u>	<u>944,109</u>

(a) Expenditures in connection with property acquisition will be added to the cost of property subsequently acquired.

In the event of project abandonment or other circumstances causing a loss of value to deferred items, the related unamortized costs are charged to current operations.

(8) Long-Term Debt

Long-term debt consists of the following:

	July 31, 1971	July 31, 1970
Mortgages maturing at various dates through December 31, 1976 and bearing interest at rates ranging from 4¾% to 6%	\$443,176	704,615
Installment contracts and lease purchase agreements maturing at various dates through August, 1974	89,042	124,910
	<u>532,218</u>	<u>829,525</u>
Less payments due within one year	295,630	333,036
	<u>\$236,588</u>	<u>496,489</u>

Land, buildings and equipment with a net book value of \$2,223,803 and \$2,232,091 as of July 31, 1971 and July 31, 1970, respectively, are encumbered under the above agreements.

(9) Income Taxes

Deferred taxes relate principally to manufacturing division and installation division sales, depreciation, deferred costs and capitalized costs. None of the Company's tax returns have been examined by the Internal Revenue Service. The tax refund included in Note 3 relates to refundable advance tax payments and the planned amendment of the prior years tax returns.

(10) Stock Options

The Company has a qualified stock option plan in effect whereby options to purchase shares of common stock may be granted to officers and key employees at not less than the fair market value on the date of grant. During February, 1971, authorized shares under the plan were increased from 400,000 to 900,000 shares. Options expire five years after the date of grant and are exercisable in cumulative installments of 20% after one year. A summary of activity for the year ended July 31, 1971 follows:

	Option price per share		Shares
	From	To	
Options outstanding at July 31, 1970	\$ 3.00	\$16.50	399,300
New options granted	15.13	22.00	275,500
Less: Options exercised	3.00	12.00	(11,800)
Cancellations	3.00	19.25	(61,900)
Options outstanding at July 31, 1971	3.00	22.00	<u>601,100</u>
Options outstanding at July 31, 1971 which are currently exercisable	3.00	16.50	<u>52,360</u>

No entries are recorded with respect to options until exercised at which time the excess of the option price over the par value of common stock issued is credited to additional paid-in capital.

(11) Commitments and Contingencies

An action has been brought to enjoin the use of the word "Homex" by the Company. In the opinion of legal counsel, the plaintiff will be unsuccessful in obtaining the relief which it seeks.

A former shareholder of restricted shares of Company com-

Government's Exhibit 16

Stirling Homex Corporation and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued) July 31, 1971

(11) Commitments and Contingencies (continued)

mon stock has brought an action against the Company and another party, a broker. It is claimed that the Company refused, in concert with the other defendant, to permit the transfer of plaintiff's stock except at a price substantially below its alleged market price. Compensatory damages in the amount of \$1,575,000 and treble damages are alleged. In the opinion of management, the suit can be successfully defended. In the opinion of counsel, the claim for treble damages is without merit.

The Company is engaged in other disputes involving claims which, in the aggregate, are insignificant compared to the Company's net worth.

Construction of a manufacturing plant in Mississippi is expected to be commenced in the latter part of 1971 at an approximate cost of \$4,900,000. In a contract with the Company, Harrison County (where the plant site is located) has agreed to take the steps necessary to authorize the issuance and sale of tax exempt industrial revenue bonds in an amount necessary to meet the cost of constructing and equipping the plant. The contract also provides for a 30-year lease to the Company of the completed facility and the related land. Semi-annual payments in respect of the bonds will be based on principal and interest requirements; an additional \$36,325 is due annually for the land. Options to purchase the plant and the land are provided for during and at the end of the lease

term. If the bond offering is not consummated, the Company will arrange to finance the cost of the facility itself.

At July 31, 1971, the Company had leases on various equipment and office facilities with terms ranging from two to six years. Minimum annual rentals under such leases amount to approximately \$404,000.

Notes payable consist of 90 day unsecured notes to eleven banks bearing interest at a rate $\frac{1}{4}\%$ above the respective bank's best rate on the date of issue. The Company is required to maintain average annual compensating cash balances at each of these banks equal to approximately 15% to 20% of the outstanding indebtedness to such bank.

(12) Earnings Per Share

Earnings per common share are based upon the weighted average number of common shares outstanding during the periods presented after giving retroactive effect to the four for one stock split effected in February 1970. The preferred stock is not considered a common stock equivalent in accordance with Opinion 15 of the Accounting Principles Board of the American Institute of Certified Public Accountants. In addition, the effect of the preferred stock offering, for the fiscal year ended July 31, 1971 on a fully diluted earnings per share calculation is insignificant. Stock options outstanding have not been included in these computations since the effect of their inclusion would be insignificant.

Accountants' Report

The Board of Directors and Stockholders
Stirling Homex Corporation:

We have examined the consolidated balance sheet of Stirling Homex Corporation and consolidated subsidiaries as of July 31, 1971 and the related statements of income, additional paid-in capital and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. The financial statements for the year ended July 31, 1970, included for comparative purposes, were examined by other accountants.

In our opinion, such financial statements present fairly the consolidated financial position of Stirling Homex Corporation and consolidated subsidiaries at July 31, 1971, and the results of their operations and changes in their financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Rochester, New York
September 15, 1971

Peat, Marwick, Mitchell & Co.
PEAT, MARWICK, MITCHELL & CO

Government's Exhibit 16

Orig. 5250-2

STIRLING HOMEX CORPORATION

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To be Held on November 5, 1971

42980

To the Shareholders:

The Annual Meeting of Shareholders of Stirling Homex Corporation will be held in the Broadwater Beach Hotel, West Beach Boulevard, Biloxi, Mississippi on November 5, 1971 at 10 A.M. for the following purposes:

- (1) To elect Directors; and
- (2) To transact such other business as may properly come before the meeting or any adjournment or adjournments thereof.

The Board of Directors has fixed the close of business on October 4, 1971 as the record date for the determination of shareholders entitled to notice of and to vote at the meeting.

By Order of the Board of Directors

E. A. BARTZ,

Secretary

Avon, New York
October 6, 1971

YOUR VOTE IS IMPORTANT

Please complete and promptly return your proxy in the envelope provided. You are also cordially invited to attend the meeting in person. Please indicate on the enclosed post card whether you will attend and return it to the Company.

Government's Exhibit 16

PROXY STATEMENT

ANNUAL MEETING OF SHAREHOLDERS

This proxy statement is furnished in connection with the solicitation of proxies by the management of Stirling Homex Corporation to be voted at the Annual Meeting of Shareholders of Stirling Homex to be held on November 5, 1971 in the Broadwater Beach Hotel, West Beach Boulevard, Biloxi, Mississippi for the purposes set forth in the foregoing Notice of Annual Meeting. The close of business on October 4, 1971 has been fixed as the record date for the determination of the shareholders entitled to notice of, and to vote at, the meeting. On such date there were outstanding and entitled to vote 8,869,358 shares of Common Stock. Each share of Common Stock is entitled to one vote at the meeting.

Election of Directors

Seven Directors are proposed to be elected to hold office until the next Annual Meeting of Shareholders, and until their successors have been elected and shall have qualified. Management proposes to nominate the persons listed below as Directors for the ensuing year. It is intended that the persons named in the proxy will vote for the election of these persons. In the event that any of the seven nominees should not continue to be available for election, discretionary authority will be exercised to vote for a substitute.

Management believes that all of the nominees will be available and able to serve as Directors. Information about the nominees is set forth below:

<u>Nominee</u>	<u>Director Since</u>	<u>Principal Occupation</u>	<u>Shares of Common Stock of the Corporation Beneficially Owned As of August 31, 1971</u>
*David Stirling, Jr.	1968	Chairman of the Board of Directors and Chief Executive Officer	1,909,452(1)
*William G. Stirling	1968	President and Chief Operating Officer	1,919,548(1)
*Harold M. Yanowitch	1969	Executive Vice President and General Counsel	160,500(1)
David Stirling, Sr.	1968	Vice President	428,800
Theodore W. Kheel	1969	Member of New York City law firm of Battle, Fowler, Stokes and Kheel	184,900(1)
John W. Castellucci	1969	President of the National Association of Blue Shield Plans	4,000
C. W. Marshall	1971	President of U. S. Shelter Corporation, a subsidiary of the Company	20,000

* Member of the Executive Committee.

(1) Includes shares owned beneficially by members of the families of such shareholders.

Government's Exhibit 16

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David Stirling, Jr. and William G. Stirling own 21.6% and 21.7%, respectively, of the outstanding Common Stock of the Company. To the knowledge of the Company, as of September 15, 1971, Harper Sibley, Jr. owned 890,623 shares of Common Stock (excluding shares owned beneficially by members of his family) and no other person owns beneficially or of record more than 10% of the outstanding Common Stock.

Remuneration of Management

The following table sets forth the remuneration for the fiscal year ended July 31, 1971 of each Director and the three highest paid officers of the Company whose remuneration for the year from the Company and its subsidiaries exceeded \$30,000, and all Directors and officers as a group:

Name	Capacity in Which Remuneration Was Received	Aggregate Direct Remuneration
David Stirling, Jr.	Chairman of the Board and Chief Executive Officer	\$ 96,154
William G. Stirling	President and Chief Operating Officer	96,154
Harold M. Yanowitch	Executive Vice President and General Counsel	133,462
Richard E. Karkow	Executive Vice President and Treasurer	45,192(1)
C. W. Marshall	President, U. S. Shelter Corporation	41,346
David Stirling, Sr.	Vice President	45,000
All Directors and Officers as a Group (19 Persons)		855,790(2)

Note (1)—Mr. Karkow left the employ of the Company in February 1971. At that time, as one of the conditions of the mutual termination of Mr. Karkow's employment agreement with the Company, it repurchased 60,000 shares of Common Stock from Mr. Karkow for \$180,000.

Note (2)—The law firm of which Mr. Kheel is a member received \$42,275 during the year ended July 31, 1971 for services rendered, which amount is not included in the above figure.

The Company has entered into employment agreements terminating in September 1974 with David Stirling, Jr., William G. Stirling, David Stirling, Sr., Harold M. Yanowitch and C. W. Marshall pursuant to which they will receive annual compensation of not less than \$125,000; \$125,000; \$45,000; \$100,000; and \$50,000, respectively. Employment agreements with all Directors and officers as a group (including the foregoing) provide for salaries aggregating \$1,073,000 for the year ending July 31, 1972. All of the employment agreements expire during the years 1974 and 1975.

During the last fiscal year the Company purchased building materials for David Stirling, Jr. in the aggregate amount of \$306,760, payment for which has been made by Mr. Stirling, and loaned \$57,500 to Gary L. Hammons, an officer. Mr. Hammons has repaid the loan with interest at the rate of 7½%.

In July 1971, Harold M. Yanowitch was granted qualified stock options to purchase 25,000 shares of Common Stock for \$15.125 a share and in August 1970 C. W. Marshall was granted options to purchase 25,000 shares at \$15.50 per share. Since the adoption of the Company's Qualified Stock Option Plan and through August 31, 1971, all Directors and officers as a group have been granted qualified stock options to purchase 287,500 shares at an average price of \$11.36 per share. Officers of the Company have exercised options to purchase 4,400 shares for an aggregate purchase price of \$13,200 and hold 283,100 unexercised options. The aggregate market value of the shares purchased on the dates of purchase was approximately \$85,975.

Government's Exhibit 16

Other Matters

Your management does not intend to bring any matters before the meeting other than as set forth in the Notice of Meeting, nor does your management have any information that other matters will be brought before the meeting. However, if any other matters do properly come before the meeting, it is the intention of the persons named in the form of proxy to vote such proxy in accordance with their judgment on such matters.

The Company will bear the cost of solicitations of proxies. It will reimburse brokers and other persons holding stock in their names, or in the names of nominees, for their expenses in connection with sending proxy material to principals and obtaining their proxies.

All proxies received pursuant to this solicitation will be voted, but a shareholder giving a proxy has the right to revoke it at any time before it has been voted.

Government's Exhibit 16

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PROXY — STIRLING HOMEX CORPORATION

The undersigned hereby appoints DAVID STERLING, JR., WILLIAM G. STERLING, and HAROLD M. YANOWITZ, and each of them, the attorneys and proxies of the undersigned, with power of substitution, to vote on behalf of the undersigned all the shares of stock of STIRLING HOMEX CORPORATION which the undersigned is entitled to vote at the Annual Meeting of Shareholders of the Company to be held in the Broadwater Beach Hotel, West Beach Boulevard, Biloxi, Mississippi, on November 5, 1971 at 10 A.M. and at all adjournments thereof, hereby revoking any proxy heretofore given with respect to such stock, and the undersigned authorizes and instructs said proxies to vote as follows:

- (1) In the election of directors; and
- (2) In their discretion upon such other business as may properly be brought before the meeting.

(Continued and to be signed on other side)

Government's Exhibit 16

Dated: 1971

BY S.E.C.

007 12 1971

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Please sign exactly as your name or names appear below.

THIS PROXY IS SOLICITED ON BEHALF OF THE MANAGEMENT.

COPY RECEIVED

JUN 8 1977
ROBERT B. FISKE JR.
U. S. ATTORNEY
SO. DIST. OF N. Y.